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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-second Meeting
Montreal, 29 March - 2 April 2004

Addendum

PROJECT PROPOSAL: INDONESIA

This addendum is being issued to:

- **Add** the following project:

Aerosol

- National plan for phasing out the use of CFC in the aerosol sector through a combination of policies, technical assistance, and enterprise investment initiatives

World Bank

**PROJECT EVALUATION SHEET
INDONESIA**

SECTOR: Aerosol ODS use in sector (2002): 218.5 ODP tonnes

Sub-sector cost-effectiveness thresholds: US \$4.40/kg

Project Title:

- (a) National plan for phasing out the use of CFC in the aerosol sector through a combination of policies, technical assistance, and enterprise investment initiatives

Project Data	Refrigerant management plan
Enterprise consumption (ODP tonnes)	
Project impact (ODP tonnes)	218.53
Project duration (months)	72
Initial amount requested (US \$)	1,204,700
Final project cost (US \$):	
Incremental capital cost (a)	1,204,700
Contingency cost (b)	
Incremental operating cost (c)	
Total project cost (a+b+c)	1,204,700
Local ownership (%)	100%
Export component (%)	0%
Amount requested (US \$)	1,204,700
Cost effectiveness (US \$/kg.)	4.59
Counterpart funding confirmed?	n/a
National coordinating agency	Ministry of Environment
Implementing agency	World Bank

Secretariat's Recommendation	
Amount recommended (US \$)	
Project impact (ODP tonnes)	
Cost effectiveness (US \$/kg)	
Implementing agency support cost (US \$)	
Total cost to Multilateral Fund (US \$)	

PROJECT DESCRIPTION

1. The Government of Indonesia has submitted for consideration by the Executive Committee at its 42nd Meeting a national plan for phasing out the use of CFCs in the aerosol sector in Indonesia (Aerosol Plan). The project is submitted under the window for accelerated phase out (Decisions 41/12 and 41/81).

2. The objective of the Aerosol Plan is to phase out the CFC consumption in the aerosol sector by 1 January 2009 through a combination of policy actions, awareness creating activities, technical assistance programmes and direct investment for the conversion of aerosol fillers.

Aerosol projects so far approved

3. At its 22nd Meeting, the Executive Committee approved funding of US \$1,175,340 for a project for the conversion of the aerosol filling line at PT Candi Swadaya Sentosa and establishment of a filling center in the plant to satisfy the needs of 20 smaller companies to fill with hydrocarbon aerosol propellant. A total of 460 ODP tonnes of CFCs would be phased out through the implementation of the project. However, as reported in the Aerosol Plan, “the project has been delayed especially due to the financial crisis in South East Asia and the significant impact it had on the market. However, P.T. Candi has remained committed to carry out the project, despite the market situation, constraints on counterpart funding and the obvious risk. Based on the latest information, the project is now progressing well and will be completed within the next 6 months.”

Summary of CFCs still in use in the aerosol sector

4. Based on the information presented in the Indonesia country programme and the investment project approved by the Executive Committee, manufacturers of aerosol insecticide, paint aerosol products and water based aerosols (e.g., shaving creams, mousses, room fresheners, starches and cleaners) were completely converted to non-CFCs technologies.

5. During the preparation of the Aerosol Plan, five aerosol sub-sectors were surveyed where CFCs were possibly used. The CFC consumption in the aerosol sector was estimated at 620 tonnes. This estimate was based on commentaries from aerosol canisters suppliers and broad assumptions, since the few aerosol enterprises that were identified were not willing to provide relevant information on their operations (baseline equipment, installed capacity and current production with CFCs propellants). The distribution of the consumption has been estimated as follows:

- (a) 400 tonnes for manufacturers of body sprays in the informal sector, already covered under the approved project for PT Candi Swadaya Sentosa;
- (b) 160 tonnes for manufacturers of body sprays in the formal sector. Of this consumption, 120 ODP tonnes is consumed by one enterprise (Yulia Kosmetik);
- (c) 60 tonnes in industrial applications (15 tonnes by Thichemindo Ampah; 10 tonnes each Buana Eka Yasa and Teksian; and 25 tonnes by other companies).

Government's policies

6. In 1990, the Government of Indonesia issued a regulation (decree no 376/MenKes/PER/VIII/1990) that prohibited the use of CFCs in cosmetics aerosols. However, there are still a large number of CFC-based body sprays and cosmetics being produced in the country. While this Decree is still in force, it has had little effect in phasing out CFCs in the aerosol sector, "other than to drive companies underground". As reported in the Aerosol Plan, this situation "has been an enormous impediment to locating and assisting makers of aerosol cosmetics". Furthermore, "finding these companies is always difficult, and in some cases impossible".

7. The Government of Indonesia is proposing to ban the use of CFCs in the aerosol sector by January 2008. In formulating the Aerosol Plan, it was assumed that through the strategy proposed in the plan, it would be possible to enforce the general ban on using CFCs for aerosol filling.

Components of the Aerosol Plan

8. The total cost of the Aerosol Plan is US \$1,204,700, with the following breakdown:
- (a) Development of possible policy and regulations, technical assistance and awareness creating activities (US \$222,700);
 - (b) Conversion of eight medium-size aerosol fillers (US \$320,000)
 - (c) Conversion of one aerosol company to phase out 120 ODP tonnes of CFCs to HAP technology (US \$500,000);
 - (d) Contingency costs on direct financial assistance (US \$82,000); and
 - (e) Project management unit under the Ozone Unit (US \$80,000).

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

Remaining CFC consumption eligible for funding

9. The Government of Indonesia selected Option 1 (3,951.4 ODP tonnes) as the remaining CFC consumption eligible for funding (see Decision 35/57). The total amount of CFC phase-out that has been approved for funding at and since the 35th Meeting of the Executive Committee amounts to 3,576.8 ODP tonnes. Therefore, the remaining CFC consumption eligible for funding is 374.6 ODP tonnes. The Government of Indonesia submitted for consideration by the Executive Committee at its 42nd Meeting two sectoral plans for a total phase out of 592.3 ODP tonnes of CFCs, one in the aerosol sector (240 ODP tonnes) and another in the foam sector

(352.3 ODP tonnes). The total amount of CFCs to be phased out through these sectoral plans is 217.7 ODP tonnes more than the remaining CFC consumption eligible for funding. Furthermore, the World Bank had indicated that CFC consumption in MDIs will be addressed separately (outside the Aerosol Plan).

10. In view of the above observations, the Secretariat sought a clarification on how the 374.6 ODP tonnes of CFCs (e.g., the remaining eligible consumption for funding) will be distributed by the Government of Indonesia among the aerosol, foam and MDIs sectors.

CFC consumption and enterprises baselines

11. The Secretariat noted that the Aerosol Plan has been prepared on the basis of broad assumptions that were made during the preparation of the project proposal, since the few aerosol enterprises that were identified were not willing to provide relevant information on their aerosol production (level of CFCs consumption, date of establishment, baseline equipment, installed capacity and current production volumes). In this regard, and taking into consideration that the funding eligibility of the enterprises as per the Multilateral Fund rules and regulations have not been established, the Secretariat indicated to the World Bank that it was unable to recommend approval of the project proposal by the Executive Committee in its present form.

12. Subsequently, the World Bank informed the Secretariat that it would need more time to discuss with the Government of Indonesia how the above outstanding issues raised by the Secretariat would be addressed. The World Bank also indicated its agreement to a recommendation for deferral of the project.

Incorporation into a national CFC phase-out plan

13. During the review of the refrigeration sector projects in Indonesia, prior to approval at the 37th Meeting, the World Bank provided to the Secretariat correspondence from the Government of Indonesia indicating that, when submitting the final projects in the foam and aerosol sectors, Indonesia proposed to combine the sector phase-out projects under one national CFC phase-out agreement.

14. The Secretariat sought clarification from the World Bank as to the status of the proposal, since the aerosol and foam projects had been submitted to the 42nd Meeting as stand-alone terminal umbrella projects.

RECOMMENDATION

15. The Fund Secretariat recommends that the Executive Committee may wish to:

- (a) Defer the national plan for phasing out the use of CFC in the aerosol sector;

- (b) Request the World Bank to resubmit the project proposal to a future Meeting of the Executive Committee with the condition that the Government of Indonesia provide:
 - (i) A clarification of the division of remaining eligible CFC consumption between sectors proposed for funding (e.g., aerosol, and MDIs);
 - (ii) Sufficient information to establish the level of CFC consumption in the aerosol sector that is eligible for funding, having regard to the eligibility of the CFC-based aerosol enterprises as per the rules and policies of the Multilateral Fund; this would include all necessary information about the status and the baselines of the enterprises; and
 - (iii) A draft national CFC phase-out agreement covering CFC phase-out in the refrigeration sector (as per the agreement for phase out of CFCs in the refrigeration sector in Indonesia, approved by the Executive Committee at its 37th Meeting), plus the project proposal for the phase-out of residual CFCs in the foam sector submitted to the 42nd Meeting of the Executive Committee and the revised national plan for phasing out the use of CFC in the aerosol sector.
