



**United Nations
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Programme**

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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fiftieth Meeting
New Delhi, 6-10 November 2006

PROJECT PROPOSAL: INDONESIA

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

Phase-out

- National Phase-Out Plan for Annex-A Group I and Annex-B Group II and III substances for Indonesia, based on the following sector activities:
 - Phase-out plan implementation and coordination UNDP
 - Phase-out in the refrigeration (manufacturing) sector UNDP
 - Phase-out management in the refrigeration (servicing) sector UNDP
 - Phase-out in the MAC sector World Bank
 - Phase-out in the aerosol sector UNDP, World Bank
 - Phase-out in the foam sector World Bank
 - Phase-out in the MDI sector World Bank
 - Phase-out in the solvent sector UNIDO

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

PROJECT TITLE**BILATERAL/IMPLEMENTING AGENCY**

Phase-out of Annex-A, Group-I and Annex-B, Group-II and III substances	UNDP, UNIDO and World Bank
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SUB-PROJECT TITLES

(a) Phase-out plan implementation and coordination	UNDP
(b) Phase-out in the refrigeration (manufacturing) sector	UNDP
(c) Phase-out management in the refrigeration (servicing) sector	UNDP
(d) Phase-out in the MAC sector	World Bank
(e) Phase-out in the aerosol sector	UNDP, World Bank
(f) Phase-out in the foam sector	World Bank
(g) Phase-out in the MDI sector	World Bank
(h) Phase-out in the solvent sector	UNIDO

NATIONAL CO-ORDINATING AGENCY:

Kementerian Lingkungan Hidup (KLH)

LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT**A: ARTICLE-7 DATA (ODP TONNES, 2005, AS OF SEPTEMBER 2006)**

Annex A, Group I, CFCs	2,385.31	Annex B, Group III, TCA	10.74
Annex B, Group II, CTC	0.0	Annex E, methyl bromide	31.80

B: COUNTRY PROGRAMME SECTORAL DATA (ODP TONNES, 2005, AS OF SEPTEMBER 2006)

ODS	Aerosol	Foam	Refrigeration		Solvents	Process agent	Fumigant
			Mfg.	Servicing			
CFC-11	0.00	221.26	154.28	132.00			
CFC-12	180.00		303.98	1338.19			
CFC-113					32.80		
CFC-115			10.80	12.00			
Methyl bromide							Non-QPS: 31.80

CFC consumption remaining eligible for funding (ODP tonnes)

30

CURRENT YEAR BUSINESS PLAN: Total funding US \$ 3.058 million: total phase-out 767.8 ODP tonnes

PROJECT DATA	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Compliance Milestone	8,332.7	8,332.7	8,332.7	4,166.3	4,166.3	1,249.9	1,249.9		0	N/A
Maximum Allowable Annual Consumption of the Substances (ODP tonnes)	N/A	N/A	5,546	3,880	2,331	1,122	30	30	0	N/A
Total Annual Reductions of Substances (ODP tonnes)		779	1,666	1,549	1,209	1,092	0	30	0	6,325
Annual Reduction from on-going projects (ODP tonnes)	468.0	559	976	652	300	100	0			N/A
Annual CFC phase-out target in the Refrigeration (Mfg) Sector – UNDP (ODP tonnes)	0	0	300	300	300	241	0			1,141
Annual CFC phase-out target in the Refrigeration (Servicing) Sector - UNDP (ODP tonnes)	0	0	200	300	322	250	0			1,072
Annual CFC phase-out target in the MAC Sector – World Bank (ODP tonnes)	0	220	110	110	110	365	0			915
Annual CFC phase-out target in the Aerosol Sector – World Bank (ODP tonnes)	0	0	80	0	0	70	0			150
Annual CFC phase-out target in the Foam Sector – World Bank (ODP tonnes)	0	0	0	130	156	66	0			352
Annual CFC phase-out target in the MDI Sector – World Bank (ODP tonnes)	0	0	0	0	0	0	0	30		30
Annual CFC phase-out target in the Solvent Sector – UNIDO (ODP tonnes) +	0	0	0	57	21	0	0			78
Annual Reduction through Sector Plans (ODP tonnes)	0	220	690	897	909	992	0	30		3,738

PROJECT DATA	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
PROJECT COSTS (US \$)										
UNDP Refrigeration (Mfg)	1,288,000	2,200,000	1,762,000	750,000	217,000	181,000	-	-	-	6,398,000
Support Cost	111,920	194,000	156,900	67,500	19,530	16,290	-	-	-	566,140
UNDP-Refrigeration (Svg)	2,196,758	1,805,987	500,000	250,000	159,555	-	-	-	-	4,912,300
Support Cost	195,708	160,939	43,400	21,300	13,160	-	-	-	-	434,507
World Bank (MAC)	1,369,800	1,347,300	1,347,300	126,800	125,800	-	-	-	-	4,317,000
Support Cost	121,962	119,937	119,937	10,092	10,002	-	-	-	-	381,930
World Bank (Aerosol)			371,910							371,910
Support Cost			27,893							27,893
UNDP (Aerosol)			224,000							224,000
Support Cost			13,440							13,440
World Bank (Foam)	0	0	1,725,000	1,050,000	147,564	35,000	-	-	-	2,957,564
Support Cost	0	0	129,375	78,750	11,067	2,625	-	-	-	221,817
World Bank (MDI)	*	*	*	*	*	*			*	*
Support Cost	*	*	*	*	*	*			*	*
UNIDO (Solvent)			1,464,733							1,464,733
Support Cost			108,974							108,974
Total Annual Funding Instalment (US \$)	4,854,558	5,353,287	7,394,943	2,176,800	649,919	216,000	-	-	-	20,645,507
Total Support Costs (US\$)	429,590	474,876	599,919	177,642	53,759	18,915	-	-	-	1,754,701
TOTAL COSTS TO MLF	5,284,148	5,828,163	7,994,862	2,354,442	703,678	234,915	-	-	-	22,400,208

FUNDING REQUEST: Approval in principle of total ODS phase-out, total project funding and total support costs, and approval of funding for the third tranche (2006) as indicated above.

SECRETARIAT'S RECOMMENDATION	Pending
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PROJECT DESCRIPTION

1. On behalf of the Government of Indonesia, UNDP as lead agency has submitted to the 50th Meeting of the Executive Committee a request for consideration of the 2006 funding tranche of the National Phase-Out Plan for Annex-A Group I and Annex-B Group II and III substances for Indonesia (NPP) at a total cost of US \$649,919 plus agency support costs of US \$53,759. The request was accompanied by a report on the 2005 Annual Implementation Program (AIP), and the submission of the 2007 AIP. In addition to the detailed information regarding verification and excerpts from the verification report contained in UNDP's report on the 2005 AIP, UNDP also subsequently submitted on request a full copy of the verification report.

Background

2. The agreement for the NPP was originally approved at the 44th Meeting of the Executive Committee in 2004. The NPP merged a number of sector plans, the first of which was approved in 2002, namely the "Phase-out of residual CFCs in the aerosol sector" (UNDP, World Bank), the "Phase-out of residual CFCs in the foam sector" (World Bank), the "Phase-out of CFCs in the refrigeration sector" (UNDP, World Bank), and the "Plan for terminal phase-out out of ODS in the solvent sector" (UNIDO). The Executive Committee approved in principle a total of US \$20,645,507 for the NPP for Indonesia (including the cost of the previously approved sector plans), to address the entire consumption of CFCs, CTC and TCA, with the exception of 30 ODP tonnes of CFCs used for the manufacture of MDIs which was excluded from the NPP and is to be addressed in a separate project.

3. At the 48th Meeting in April 2006 UNDP, as lead agency, had submitted a request on behalf of the Government of Indonesia for approval of the 2005 tranche of the national CFC phase-out plan, accompanied by a verification report for the year 2004, as well as an annual implementation plan for 2006. The principal issue arising from the submission, in view of the absence of effective import monitoring and control mechanisms in Indonesia, was whether the verification process was adequate. The verification turned out to be limited in its accuracy due to the limitations of the existing import monitoring system. The difference between the maximum allowable consumption under the agreement and the verified consumption, which was based on a number of approaches with limited accuracy, was 1,771 ODP tonnes or 32 %. Taking into account the inaccuracies, it was found that the consumption, although not known exactly, was still very likely within the agreed consumption limits.

4. At the time of the 48th Meeting, in July 2005, the Government of Indonesia was already aware of the need for effective management of imports and indicated it was preparing appropriate regulations. The Executive Committee decided in Decision 48/33 to approve the funding requested, with the proviso that the funding should not be released until the Fund Secretariat had been officially informed by the Government of Indonesia, through UNDP as lead implementing agency, that the new ODS import control regulations had been adopted and were being implemented.

5. UNDP, on behalf of the Government of Indonesia, submitted on 15 September 2006, i.e. after the submission deadline for the 50th Meeting, a copy of Indonesia's revised regulations controlling the import of ozone depleting substances together with the advice that the regulations

were adopted officially on 22 June 2006. Following a review, the Secretariat informed UNDP that the promulgation of the regulation appeared to meet the requirement of decision 48/33. Also, in the same letter, the Secretariat informed UNDP of its impression that the allowable import quantities of ODS appear to have the status of a guideline only, allowing in addition to those quantities unspecified quantities of imports for laboratory and research use as well as for the needs of the government. Furthermore the regulations do not appear to include provisions for the establishment of quotas prior to the cessation of imports of CFCs at the end of 2007. With the release of funds associated with the fulfilment of decision 48/33, the second tranche of the Indonesia NPP now has the funding available for implementation.

Report on previous annual implementation program

6. UNDP has reported on the implementation of the 2005 AIP. However, since funding for the 2005 programme was only agreed for release on 9 October 2006, activities in 2005 were progressed using funding approved at the 44th meeting in December 2004. The comparison between the phase-out objectives planned in the last annual implementation programme approved in March 2005 and the phase-out achievements for 2005 show that phase-out objectives were achieved or exceeded in the foam and refrigeration servicing sectors, and were approached but not quite achieved in the MAC servicing, refrigeration servicing and solvents sectors. The cumulative phase-out from completion of individual projects funded outside the NPP was 1,221 ODP tonnes compared to the objective of 652 ODP tonnes. The total level of disbursements and commitments for activities implemented so far, under both the 2004 and 2005 annual implementation programmes, is US \$9,910,345 against total approvals of US \$17,602,788 (excluding the funding for the 2005 tranche only now released).

Report concerning the verification of consumption

7. An attempt has been made to verify the 2005 consumption of Indonesia. In the absence of a functioning licensing system, this work was using the same methodology as the verification presented to the 48th Meeting. The methodology for assessing the total national level of consumption can be summarised as follows:

- (a) For Indonesia, consumption is equal to imports. Import figures were obtained from the main informal importers (without written documentation). In addition, there is also formal (registered) import through the single registered importer. Market participants estimated the market share of the informal importers as a percentage of informal imports. This leads to the calculation of a total sum for both formal and informal imports;
- (b) ODS exporting data from other countries to Indonesia was obtained for comparison with import data;
- (c) The estimated total in-country sales of relevant ODS for 2004 obtained from distributors and traders were used to cross-check the information available from (a) and (b) above, based on the estimate from market participants that the distributors identified have a 90% market share;
- (d) The estimated consumption by recipient enterprises during 2004 in the various sectors was used for cross-checking the information available from (a) to (c)

above. The ODS phased-out by 2004 was deducted from the total baseline consumption of all ODS-using enterprises identified in the individual project and sector plans.

8. The table below provides an overview of the target, as set by the Agreement, and the results of the different attempts to verify the consumption.

	Method as per para. 7 above	ODP Tonnes of consumption
Target set as per agreement		3880
Results of alternative methodologies	<i>a.i) Formal imports</i>	<i>1526</i>
	<i>a.ii) Informal imports</i>	<i>1720 / est. market share = 1810</i>
	a) Total of import data available	3336
	b) Other countries exports	1032
	c) In-country sales	3262 / est. market share = 3624
	d) Enterprise-level consumption	2331

It can be seen that methodologies (a) and (c) as per paragraph 7 above both rely heavily on estimates of market share. The difference between the two figures (a) and (c) and the target are 544 ODP tonnes (14%) in case of methodology (a) and 256 ODP tonnes (7.5%) in case of methodology (c).

Annual implementation plan for the requested tranche

9. The AIP for 2006, related to this request, seeks funding for activities in the foam, refrigeration manufacturing, refrigeration servicing, MAC servicing and solvent sectors (noting that there is no additional funding in the solvent sector). Of the total funding of US \$649,919 foreseen for the 2006 programme, US \$147,564 (22.7%) is planned to continue the implementation of investment activities in the foam sector, US \$159,555 (24.5%) for the refrigeration servicing sector including continuation of the national project for training of service technicians, US \$125,800 (19.4%) for the national refrigerant recovery and recycling project for mobile air conditioning, and US \$217,000 (33.4%) for the refrigeration manufacturing sector programme. Funds for project management and information transfer activities are included within each sectoral funding request. The data submitted by UNDP on the activities proposed to be undertaken in 2007 are still under discussion between the agencies involved and the Secretariat.

SECRETARIAT'S COMMENTS AND RECOMMENDATIONS

COMMENTS

10. With the enactment of legislation improving the monitoring and control of ODS imports, Indonesia has demonstrated its willingness to actively work to achieve the obligations it undertook in the Agreement with the Executive Committee.

11. The Secretariat raised a number of issues with UNDP regarding the reported achievements, calculation of the remaining budget for implementation and the new annual implementation plan. These issues are presently still under discussion.

12. The Secretariat recognises that the verification provided by UNDP regarding the consumption in Indonesia represents probably the best efforts which can be undertaken in lieu of a functioning import monitoring and control system in the country. Any such system can at best be in place as a result of the legislation forwarded in July 2006. Consequently, the first year when such a system will function is 2007, with a reporting requirement in 2008.

13. The verification attempt provided by UNDP is relying on the four methodologies mentioned in paragraph 7 above. The Secretariat would like to point out that none of these methodologies are verifications in the sense that this term is typically used, nor does a combination of these lead to a true verification. The main issues regarding the approaches are as detailed below:

- (a) The collection of the import data available is as such a reasonable approach, because it is based on a limited, although unknown number of importers. In a first step, informal importers are interviewed about the quantities imported. In a second step, the methodology tries to use the opinion of market participants regarding the market share of the importers to extrapolate the figures obtained from the known informal importers to the total informal import market. The general problem with this approach is the accuracy of the estimate of the market participants, in particular if the market covered is as vast and as diverse as Indonesia. It should be further noted that the import data for each importer could, due to the nature of the imports, not be verified but is based on oral communication;
- (b) The use of export data of other countries to obtain a better understanding of the import into Indonesia is an interesting approach. It is known that several countries in the region export to freeports, in particular Singapore, where ODS movements are not registered by customs, nor as import or as export. The quantities being shipped to those freeports are very considerable. Consequently, export data from other countries will always provide only a partial picture of the ODS trade towards Indonesia, providing a certain minimum for the amounts imported, but not more than that;
- (c) The methodology used here for the determination of consumption based on in-country sales leads to similar reservations as raised for import data. The amounts of CFCs distributed in the country by a number of known distributors are being

collected. This methodology tries to use then the opinion of market participants regarding the market share of the distributors to extrapolate CFC distribution by the known distributors to the total market. An additional uncertainty is that the methodology is covering only use and not potential stockpiling, which can have a very strong influence on consumption data;

- (d) The assessment of country consumption on the basis of enterprise-level consumption and service technician consumption in a country as large and diverse as Indonesia is considered to be associated with very high uncertainties. The methodology tries to capture that uncertainty by assuming that ODS users known to the verifiers, which are essentially the known beneficiaries of the NPP, have a certain share of the market. Experience in the Secretariat with other verifications and annual reports clearly demonstrates that even in countries with a more homogenous structure than Indonesia and with a high degree of organisation, it is not possible to assess the consumption in such a bottom-up approach, particularly not if the service sector is one of the sectors covered.

14. The Secretariat is presently in discussion with UNDP regarding the details of the work proposed to be undertaken in 2007, the particularities and uncertainties of the verification as well as a number of technical details in the submission. The Secretariat will inform the Executive Committee of the outcome of these discussions.

RECOMMENDATIONS

- 15. Pending.