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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: 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 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**

National phase-out plan for Annex A Group I and Annex B Groups 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:

Kementrian Lingkungan Hidup (KLH)

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

Annex A Group I, CFCs	2,385.31	Annex B Group III, TCA	0.00
Annex B Group II, CTC	0.00	Annex E, methyl bromide	31.80

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

ODS	Aerosol	Foam	Ref. Mfg.	Ref. Servicing	Solvents	Process agent	Fumigant
CFC-11		221.26	154.28	132.00			
CFC-12	180.00		303.98	1,338.19			
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 \$939,000: total phase-out 155.0 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

PROJECT DATA	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
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 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	Blanket approval
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PROJECT DESCRIPTION

1. On behalf of the Government of Indonesia, UNDP has submitted to the 51st Meeting of the Executive Committee, a request for the 2006 funding tranche of the national phase-out plan (NPP) for Indonesia, at a total cost of US \$649,919 plus agency support costs of US \$53,759. UNDP had already submitted a similar request to the 50th Meeting, and was requested to resubmit the request with additional information included.

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 50th Meeting had deferred the consideration of the request for the 2006 tranche to the 51st Meeting. The Executive Committee requested UNDP to submit the following additional information:

- (a) A revised verification report regarding the 2005 consumption of CFCs, CTC and TCA, in accordance with the guidelines of the Executive Committee adopted at the 46th Meeting. This verification would highlight the experience in the initial implementation of the regulation revised in June 2006 and to include detailed information about the following:
 - (i) Actual operation of the new institutional structure;
 - (ii) Division of responsibilities;
 - (iii) Collection and reporting of information of actual ODS imports;
 - (iv) Establishment of import quotas; and
 - (v) List of importers, and awarding of import licenses.
- (b) A revised 2006 annual implementation plan, taking into account the 2007 and 2008 consumption targets, and providing information on the estimated remaining CFC consumption by sector, planned allocation of remaining balances and funding requested, and expected impact of the activities on the remaining consumption.

5. The report on the previous annual work plan had been submitted before the 50th Meeting and was satisfactory. A brief description of this is included in document UNEP/OzL.Pro/ExCom/50/34. The report regarding the previous tranche will not be discussed further in this document.

Revised verification report

2005 consumption data

6. A number of issues have been further clarified. It would appear that 417.69 ODP tonnes had been incorrectly recorded as CFCs, but were in reality imports of HFCs. There are also indications that non-official importers had purchased an import license from the previously sole official importer, and that the associated imports were accounted for twice: once for the licensed importer and once for the non-licensed importers. This has resulted in an excess of 242 ODP tonnes. Finally, customs seem to have recorded more imports than shown in the original verification indicating 88 ODP tonnes. The 88 ODP tonnes apparently only cover those customs data using weight as a unit, while a number of additional reports appear to be available using other units which could not be converted into weight. The approach used for accounting for export data from other countries was further refined, leaving as the main unknown variable the CFC-12 exports from Singapore to Indonesia. The total level of the exports accounted for is 1,031 ODP tonnes.

7. The domestic consumption data was also further investigated. The amount of confirmed sales decreased, as certain sales were identified as being HCFC, not CFC. In addition, the stock levels had decreased during 2005, i.e. not all sales of CFCs were based on imports. With that, the sales data has been revised downwards from the original maximum figure of 3,624 ODP tonnes to a maximum of 2,241 ODP tonnes.

Experience in the initial implementation of a new regulation

8. The Ministry of Trade signed a revised regulation regarding the “Provision of Ozone Depleting Substances (ODS) Import” on 22 June 2006. An important feature of the regulation is that all halons, CTC (except laboratory uses) and TCA imports are banned. The import of CFCs and methyl bromide is allowed on the basis of import quotas until December 2007. HCFCs are allowed to be imported without quantity restrictions, but need to be licensed similar to other ODS as well. The import of ODS is only allowed through six specific seaports.

9. Based on a request by the 50th Meeting of the Executive Committee, an evaluation took place in December 2006 and January 2007, which included a review of the relevant texts, interviews, and discussions with the Ministries of Environment, Trade, Industry, the customs authorities and other relevant departments. In general terms, 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.

10. The verifier made a number of recommendations, which reveal indirectly the level of implementation achieved. These recommendations suggest that the time for approval of licenses should be expedited, that a procedure for re-application needs to be defined, and that customs codes should be part of the licence. The verifiers further proposed that the exchange of quotas between different importers should be addressed, and that such import quotas should be valid for

the calendar year. Finally, the feedback on the actual imports on the basis of licenses issued needs to be improved, and control procedures relating to illegal imports should be stipulated.

Actual operation of the new institutional structure

11. Implementation of the new regulation started shortly after the new regulation has been signed. The early signs of cooperation by the various different agencies involved are encouraging. The recommendations of the verifier highlighted that aligning data reporting systems between all relevant departments is still needed. It was also recommended that more detailed technical guidelines should be required to make the application of the new regulation more straightforward and transparent.

Division of responsibilities / Collection and reporting of information of actual ODS imports

12. The set-up for the process of issuing import licenses is complex. The new regulation involves the inputs of several Government institutions such as the Ministry of Environment, the Ministry of Trade, the Ministry of Industry, the Ministry of Agriculture, and the Supervisory Body of Food and Drugs. Each institution has a different, yet associated role in the implementation, requiring good inter-departmental coordination. The respective roles of each institution have been defined and are understood by the various ministries. The evaluation of the initial implementation indicated that each Ministry carries out its responsibilities diligently.

13. Since July 2006, 43 customs officers from the six seaports have been trained, and 19 refrigerant identifiers have been provided. A memorandum of understanding between the Ministry for Environment and the customs authority had already been signed by the end of 2005.

14. The evaluation indicated an improvement in inter-departmental coordination, synchronization of import realization data between ministries, and expedited timeframe for approval of PI/RI-ODS as some areas needing enhancement to improve implementation to realize the desired results.

15. Quota realisation from July 2006 to 10 January 2007, for both CFCs as well as HCFCs, was 694.26 metric tonnes out of a total of 5,039.72 metric tonnes. For CFC-11, CFC-12 and R-502, a total quota of 516 metric tonnes was allocated, but the total imports were only 31.28 ODP tonnes, according to the import realisation data from the Ministry of Trade as of 10 January 2007.

Establishment of import quotas and the list of importers and awarding of import licenses

16. The importers are selected and, subsequently, licenses issued through a multi-department process always involving the Ministry of Environment and the Ministry of Trade. The Ministry of Environment issued 15 licenses between July 2006 and January 2007, all of which were then approved by the Ministry of Trade. In the same period, three importers that had been importing CFCs without registration have been legally registered. With that, the amount of legally registered importers in Indonesia has increased to four importers.

Revised annual implementation plan

17. In the year reported above, the maximum allowable consumption under this agreement was 3,880 ODP tonnes. In 2006, the maximum allowable consumption was only 2,331 ODP tonnes. The consumption for this year is to remain below 1,122 ODP tonnes, while for the next year and 2009, only a consumption of 30 ODP tonnes is allowed. Given that in the 12 month following the first of January 2008, only 30 ODP tonnes are allowed to be consumed, the activities of the past and this year need to support Indonesia in reducing its consumption from almost 2,500 ODP tonnes by almost 99%.

Information on the estimated remaining CFC consumption by sector and expected impact

18. As requested in decision 50/33, UNDP as lead implementing agency submitted information about the estimated remaining CFC consumption in Indonesia by sector and detailed the expected impact of their measures. An overview is provided in the following Table 1.

Table 1

Estimated CFC consumption and impact by sector

Sector	Estimated CFC Consumption in 2005 (ODP tonnes)	Estimated Impact in 2006 (ODP tonnes)	Estimated CFC Consumption in 2006 (ODP tonnes)	Estimated Impact in 2007 (ODP tonnes)	Estimated CFC Consumption 2007 (ODP tonnes)	Expected Impact in 2008 (ODP tonnes)	Estimated CFC use 2008 (ODP tonnes)	Later Impact and not addressed (ODP tonnes)
Aerosol	80	-	80	70	10	-	10	10
Foam	352	130	222	122	100	70	30	30
Refrig. (Mfg)	476	300	176	176	0	0	0	0
Refrig. (Servicing)	1,100	400	700	400	300	100	200	200
MAC	369	128	241	56	185	121	64	64
MDI	30	0	30	0	30	0	30	30
Solvent	41	21	20	20	0	0	0	0
Total	2,448	979	1,469	844	625	291	334	334

19. The information contained in the above table provides an understanding of where the country presently stands with its phase-out efforts, and of the priority sectors which need to be the focus of the implementation in the next two years.

Planned allocation of remaining balances and funding requested

20. As requested in decision 50/33 UNDP, as lead implementing agency, submitted information about the allocation of remaining balances and funding requested for the different sectors. An overview is provided in the following Table 2.

Table 2**Allocation of remaining balances and funding requested for the different sectors**

Sector	Total amount released (US \$)	Estimated amount disbursed / committed (US \$)	Uncommitted / undisbursed balance (US \$)	2006 tranche to be released in 2007 (US \$)	Estimated disbursement / commitment in 2007 (US \$)	Estimated disbursement / commitment in 2007 (US \$)
Aerosol	595,910	209,158	386,782	-	42,042	-
Foam	2,775,000	1,658,419	1,116,581	147,564	1,200,800	63,345
Refrig. (Mfg)	6,000,000	3,578,180	2,421,820	217,000	1,682,715	956,105
Refrig. (Servic)	4,752,745	2,760,190	1,992,555	159,555	1,758,019	394,091
MAC	4,191,200	3,570,843	620,357	125,800	670,806	75,351
Solvent	1,464,733	954,121	510,612	-	510,612	-
Total	19,779,588	12,730,911	7,048,707	649,919	5,864,994	1,488,892

21. Significant expenditures in 2007 in the refrigeration manufacturing and foam sectors relate to finalisation of previously started projects and other existing obligations. Without taking those sectors into account, 84 per cent of the remaining funds are focussed on the refrigeration servicing and MAC servicing sectors. This reflects the challenge indicated in table 1 in terms of phase-out to be achieved. The annual implementation plan details a number of activities to be undertaken in 2007 for the different sectors.

SECRETARIAT'S COMMENTS AND RECOMMENDATION**COMMENTS**2005 consumption data

22. From the 2005 consumption data included in the revised verification report it is evident that the different sources report a much closer match of data than for the previous verification. In addition, confidence can also be drawn from the fact that surveys in the consumption sectors, carried out in the last few months, have shown only low levels of consumption in the CFC-using manufacturing sectors. Therefore the main remaining consumer should be the servicing subsector (including MAC). In order for Indonesia to have a consumption above the agreed 2005 consumption limit of 3,880 ODP tonnes, it would have to have a servicing sector consumption of about 3,000 ODP tonnes or more. Other countries of comparable size and wealth seem typically to consume in the order of 2,000 ODP tonnes down to 600 ODP tonnes in the servicing sector. The fact that the verification has become more thorough and has eliminated a number of mistakes, that the different approaches show increasingly more similar results, and that new consumption sector surveys suggest a high probability of servicing sector consumption being below 2,000 ODP tonnes leads to the likelihood that Indonesia has been able to fulfil the 2005 target under the Agreement.

Data investigated	Value in submission to 51st meeting	Value in previous submission to 50th Meeting	Change
Total recorded and unrecorded ODS imports in Indonesia (informed estimate)	2,664 ODP tonnes	3,337 ODP tonnes	-20.2%
Total exports of ODS to Indonesia	1,031 ODP tonnes	509 ODP tonnes	+102.6%
Total domestic sales of ODS in Indonesia	2,241 ODP tonnes	3,624 ODP tonnes	-38.2%
Maximum domestic demand for ODS in Indonesia	2,331 ODP tonnes	2,331 ODP tonnes	+/-0%

Experience in the initial implementation of a new regulation

23. The information provided by the verifier included significant clarifications about the functioning of the new system, in particular regarding the emphasis that important stakeholders place on making the regulation work. From the verifiers report, it now appears evident that the regulation has the support of the most important ministries, and that the previous difficulties seem to have been overcome. While the verification still addresses a number of problems, these are likely to be on the operational level, resulting from normal difficulties associated with a new institutional set-up.

Revised annual implementation plan

24. The revised annual implementation plan addressed a number of concerns which were expressed by the Executive Committee in its decision 50/33. It is now focussing much more on the need to achieve reductions and the subsequent phase-out on a national level, as compared to the segmented approach of the previous version.

25. The Secretariat has found the verification provided to be sufficient to give some certainty that the 2005 consumption target specified in the agreement has been met. The annual plan and the associated tranche are recommended for blanket approval.

RECOMMENDATION

26. The Fund Secretariat recommends blanket approval of the third 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)	Phase-out of Annex A, Group I and Annex B, Groups II and III substances in Indonesia	376,555	32,690	UNDP
(b)	Phase-out of Annex A, Group I and Annex B, Groups II and III substances in Indonesia	273,364	21,069	World Bank