I. Project Context

Country Context

1. Indonesia is the largest economy in Southeast Asia and is one of the emerging economies of the world. The country is also a member of the G-20. Indonesia has a market economy, but the government plays a significant role, owning more than 164 enterprises and regulating prices on several basic goods, including fuel, rice, and electricity. In the aftermath of the financial and economic crisis that began in mid-1997, the government took drastic actions, restructuring its economy and banking system. The national economy has since recovered and Indonesia has experienced rapid economic growth at a rate of 6.5 percent of GDP in 2011 and an expected 6.7 percent in 2012.

2. The Government of Indonesia (GOI) is committed to protecting and preserving both the local and the global environment. In keeping with its commitments, Indonesia is a Party to the Montreal Protocol (MP) and operates under MP Article 5 (developing countries). As such, Indonesia is eligible for financial and technical assistance (TA) from the Multilateral Fund for the Implementation of the MP (MLF) for meeting its MP obligations. Since 1993, the government has undertaken a number of Ozone Depleting Substance (ODS) Phase-out projects under the MP, including the sector plans for the phase-out of CFC-11 in the Polyurethane (PU) foam sector and
CFC-12 in the mobile air conditioning sector. By 1 January 2008, Indonesia had completed its phase-out of CFC-11 consumption in the foam sector, two years ahead of its MP obligations, and phase-out of CFC-12 consumption in the mobile air conditioning sector was completed by January 2010.

3. Indonesia is also a Party to the United Nations Framework Convention on Climate Change and the Kyoto Protocol and has agreed to limit its impact on climate change, save energy, promote green growth and move towards a low-carbon economy. In line with this initiative, Indonesia has set a voluntary target to reduce CO2 emission by 26% in 2020. Replacing the use of Greenhouse Gases (GHGs) with a high Global Warming Potential (GWP) such as Hydrochlorofluorocarbons (HCFCs) with lower GWP alternatives provides an excellent opportunity for synergies between the MP and climate-related initiatives as per Decision XIX/6 of the MP Parties.

4. GOI is now poised to embark on the first stage of its HCFC phase-out. As per the Decision of the Parties to the MP, the MLF will finance the cost of phasing out HCFCs in Article 5 countries. The Executive Committee of the MLF (ExCom) has requested Article 5 countries to prepare an overall HCFC Phase-out Management Plan (HPMP) to be submitted with the first request for funding for HCFC phase-out.

5. ExCom has decided to adopt a staged approach to the HCFC phase-out. Stage 1 (2013-2015) will assist countries in reducing their consumption to the baseline freeze level in 2013 and further reduce their consumption to 90% of the baseline in 2015. Subsequent funding for Stage 2 of the HPMP will assist countries in meeting the reduction target of 65% of the baseline in 2020. It is expected that HCFC used for manufacturing of products will be phased out completely by 2020. The residual HCFC consumption after 2020 is expected to be for servicing of refrigeration equipment only.

6. Indonesia’s continued economic growth and improved living standards has resulted in an increased demand for products containing HCFCs, such as refrigerators, air-conditioning and PU foam for insulation, at a time when the country sets out to reduce its consumption of HCFCs. From 2007 to 2010, the overall growth in HCFC consumption in Ozone Depleting Potential (ODP) terms was 14.73%, a significant growth mainly due to the overall economic growth. Hence, the phase-out of HCFCs is a challenge and will require introduction of alternatives to HCFCs and a strict control of imports of HCFCs.

7. An overall HPMP to meet the consumption freeze and reduction to 90% of baseline consumption was developed with support from the UNDP and the World Bank. UNDP was the Lead Implementing Agency (IA) for the HPMP Stage 1 preparation, while the World Bank, in close collaboration with GOI, developed the HCFC Phase-out in the Foam Sector Plan.

8. ODS consumption is defined by the MP as ODS production plus ODS import minus ODS export. As Indonesia does not produce any of the ODS substances, its HCFC consumption is calculated on the basis of the net import of HCFCs. Using 2007 to 2010 import data, which is based on information from different sources (Department of Customs, Central Bureau of Statistics; mandatory reporting by registered importers to the Ministry of Trade; data from Ministry of Environment), the national HCFC consumption was established.

9. The baseline level of HCFC consumption for Indonesia, based on the average of the reported
HCFC import in 2009 and 2010, is 403.91 ODP tons. Taking consumption growth into account, the HCFC consumption in 2012 is estimated to be 496.97 ODP tons.

10. Indonesia submitted its HPMP together with a request for funding for Stage 1 in 2011. Stage 1 of the HPMP will phase-out 134.97 ODP tons by 2015 in order to reduce HCFC consumption from its estimated 2012 consumption level down to 362.0 ODP tons. During Stage 1, the majority of the planned reduction, namely 131.3 tons, will come from the manufacturing sub-sectors and only 3.67 tons from servicing sub-sectors.

Sectoral and institutional Context
11. HCFC-141b is used in PU foam manufacturing sector for insulation in refrigerators, thermo wares, buildings etc. and in integral skin and as insulation in the commercial refrigeration sector. The growth in the PU foam sector over the past years has been around 7%. As per data reported to the Ozone Secretariat of the Montreal Protocol, the baseline consumption of HCFC-141b is 132.6 ODP tons (1205.6 MT) – with 90.61 ODP tons (823.73 MT) used in the PU foam sector and 42.42 ODP tons (385.64 MT) used in the commercial refrigeration sector. The phase-out of HCFC-141b consumption for commercial refrigeration will be addressed through the Commercial Refrigeration Sector Plan. As per ExCom agreement, Indonesia will return its HCFC-141b consumption in the PU foam sector to the baseline level of 90.61 ODP tons (823.73 MT) in 2013 and further reduce consumption to 81.55 ODP tons (741.36 MT) from 2015.

12. Foam manufacturing companies in Indonesia using HCFC-141b can be divided into two main groups: rigid PU foam and integral skin foam. In 2009, 55 foam companies were producing rigid PU foam, 18 companies integral skin foam and three companies both rigid PU foam and integral skin foam. The majority of the PU foam companies are small to medium-size, with only 15 companies considered as larger HCFC-141b users. The sector can be divided into eight sub-sectors based on the use of the foam: PU foam for insulation in appliances (domestic refrigerators and freezers); thermo wares; water heaters; sandwich panels; PU foam for insulation in refrigerated trucks; spray foam; block foam for insulation; and integral skin foams for the automotive and furniture industry.

13. Collection of HCFC consumption data for the foam sector was undertaken by the Technical Working Group mandated by the Ministry of Environment (MOE) and supported by review and analysis of data by a foam technical expert contracted by the World Bank on behalf of MOE. Based on a review of over 100 foam companies identified, it was concluded that the most effective and sustainable way forward is to phase-out HCFC-141b by sub-sectors, selecting sub-sectors first where alternatives are known and available in Indonesia. The sub-sectors selected are insulation foam for refrigeration appliances (domestic refrigerators and freezers), insulation foam refrigerated trucks and integral skin foam. There are about 26 companies in these three sub-sectors eligible for MLF funding with a total consumption of 304.8 MT of HCFC-141b in 2009 (or 33.53 ODP tons) and an estimated consumption of around 360 MT in 2012.

14. Since 2004, World Bank support for Indonesia has moved towards supporting a country-led and owned policy agenda, consistent with Indonesia’s emerging status as a middle-income country. As per the 2009 to 2012 Country Partnership Strategy (CPS) for Indonesia, World Bank assistance is focused on five core areas of engagements: (i) private sector development, (ii) infrastructure, (iii) community development and social protection, (iv) education, and (v) environmental sustainability and disaster mitigation. The CPS for 2013-2014 was discussed in December 2012, confirming the
Bank Group’s role in sharing development solutions for an emerging Indonesia with a focus on private sector and sustainable development. The proposed Project falls within the area of private sector development and environmental sustainability; it also supports sustainable development through the strengthening of institution and their technical and management capacity.

15. The Bank has been engaged in ODS phase-out activities in Indonesia since the early 1990s. The Bank has served as Indonesia’s partner in the implementation of ODS program, eliminating an annual use of 6,892 ODS tons of CFCs and halons. The Bank’s assistance was strategically important and effective in bringing down the demand of CFC during the period 1995 to 2004 and to achieve a complete phase-out of ODS consumption by 2008, two years ahead of the MP requirements. The proposed Project is a continuation of the successful partnership with Indonesia on ozone protection.

II. Project Development Objectives
The Project Development Objective is to reduce the consumption of HCFC-141b in the foam sector in Indonesia in order to contribute to the government’s effort to comply with Indonesia’s HCFC phase-out obligations under the Montreal Protocol.

III. Project Description
Component Name:
- Investment in HCFC-141b consumption reductions in the PU Foam Sector
- Technical Assistance and Policy Support
- Project Management

IV. Financing (in USD Million)

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<th>Amount</th>
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<td>Total Project Cost:</td>
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For Loans/Credits/Others
- Borrower                  | 0.92   |
- Montreal Protocol Investment Fund | 2.71   |
- Total                     | 3.63   |

V. Implementation
17. The implementation of the Project is embedded in the organization and implementation of the overall HPMP. At the 64th ExCom Meeting in July 2011 GOI entered into an agreement with ExCom on the reduction in consumption of HCFCs. Accordingly, GOI has the overall responsibility for the management and implementation of the Agreement – and of the HPMP and all activities undertaken by it or on its behalf to fulfill its obligations, while UNDP functions as the Lead Implementing Agency (IA) and UNIDO, the World Bank and the Government of Australia as cooperating IAs.

18. UNDP as Lead IA is responsible for annual verification of HCFC consumption and coordination with the cooperating IAs to ensure appropriate timing and sequencing of activities and reporting to the MLF. The cooperating IAs will assist GOI in the implementation and assessment of the activities funded by each cooperating IA and report to the MLF through the Lead IA.
19. MOE will establish a Project Management Unit (PMU) under the National Ozone Unit (NOU) in MOE. The PMU will be tasked with the day-to-day management and implementation of the overall HPMP, including the Foam Sector Plan. MOE will hire a Project Manager to lead the PMU. The Project will contribute the following staff to the PMU: (i) a Project Management Assistant, (ii) a Financial Management and Administrative Assistant, (iii) a foam sector Technical Consultant.

20. MOE will, through the PMU and the NOU, collaborate and coordinate with the Ministry of Industry, Ministry of Trade and Customs Bureau to implement the import quota system for HCFCs, review annual HCFC import license applications to ensure that licenses are provided only to registered importers, and establish and publish the annual import quotas for the period 2013 through 2015.

21. Monitoring and reporting will be carried out on three levels: (i) compliance with the MP and ExCom agreement, (ii) implementation of the Foam Sector Plan, (iii) results of sub-project activities. The World Bank will monitor the success of the Project using the Project Results Framework. MOE, assisted by the PMU, will monitor and report on Indonesia’s compliance with the MP and the Agreement with ExCom. In particular the consumption of HCFC will be monitored, verified and reported annually.

22. The PMU will monitor Project implementation and prepare the following reports: (i) Tranche Implementation Reports and Plans, (ii) Financial Reports, (iii) Sub-Project Verification Reports, (iv) Progress Reports, and (v) a Project Completion Report.

23. Project beneficiaries will monitor the implementation of their conversion projects and (i) document and report to the PMU on achieved milestones as a prerequisite for the release of incentive payments, and (ii) prepare a Sub-project Completion Report in the format required by MLF for project completion reports to confirm the successful execution of each sub-project.

24. GOI is obligated to meet Indonesia’s HCFC phase-out obligations under the MP starting in 2013. This, and the following design features of the HPMP and the chosen sector phase-out strategy will ensure that a resurgence of HCFC use in the foam sector after completion of the Project will be unlikely: (i) GOI will establish an import quota system for HCFC and prevent the use of HCFC in new companies entering the market to ensure that HCFC-141b imports and consumption will stay within the limits agreed with ExCom. (ii) The sectoral phase-out strategy will address all enterprises in the targeted sub-sectors at the same time, thus avoiding competitive pressures that could lead to a resurgence of HCFC use and (illegal) HCFC imports.

25. The sectoral approach will also (i) facilitate carrying out TA activities for beneficiaries, government agencies and other stakeholders at the sector level, (ii) help establish verifiable HCFC phase-out performance indicators and targets, (iii) provide opportunities to promote and introduce zero-ODP and a low-GWP alternative technologies in a large number of companies, and (iv) allow to introduce an Environmental Management Framework (EMF) with occupational health and safety requirements for the entire sub-sector, while requiring certain companies (those switching to hydrocarbon as blowing agent) to prepare and submit an Environmental Management Plan (EMP) that will avoid or minimize any potential environmental and health/safety risks.

VI. Safeguard Policies (including public consultation)
Safeguard Policies Triggered by the Project

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