

UNDP-GEF MTR Management Response Template

Management Response to the Mid-Term Review of Market Transformation through Design and Implementation of Appropriate Mitigation Actions in Energy Sector (MTRE3)

Project Title: Transformation through Design and Implementation of Appropriate Mitigation Actions in Energy Sector (MTRE3) (PIMS#4673)

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Context, background and findings

Indonesia faces a significant electricity challenge in the coming years with an electricity demand increase of 6.8 % annually while still having over 30 million people without electricity access. Indonesia's primary energy mix consists mainly of fossil fuels such as crude oil, coal and natural gas while renewable energy generates only about 7% of the total final energy demand. The heavy reliance on fossil fuels leaves Indonesia vulnerable to price fluctuations of imported oil and makes the energy sector one of the largest greenhouse gas (GHG) emitters, accounting for one-third of the country's total GHG emissions. Meanwhile, renewable energy resources have an abundant potential in Indonesia, and, together with energy efficiency technologies, can provide clean solutions necessary to address the country's electricity demand, increase access to modern energy, reduce the over-reliance on fossil fuels and contribute to GHG emission reductions.

Despite the Government of Indonesia's efforts in promoting renewable energy development and utilization and energy efficiency technology applications, the increased share of renewable energy in the national primary energy mix and the improved primary energy consumption index both remain much to be desired. Significant policy, institutional, financial and technical barriers remain that hinder the realization of the energy saving and GHG emission reducing potential of renewable energy and energy efficiency technologies in Indonesia.

The project Market Transformation through Design and Implementation of Appropriate Mitigation Actions in Energy Sector (MTRE3) addresses the barriers to investments in renewable based power generation and the application of energy efficient technologies in the energy end use sectors and is arranged around three components: 1) Climate change mitigation options for the renewable energy based energy generation and energy efficiency; 2) Market transformation through implementation of appropriate mitigation actions; 3) Measurement, Reporting, and Verification (MRV) system and national registry for mitigation actions.

The project is implemented by the Ministry of Energy and Mineral Resources in close coordination with the Ministry of Environment and Forestry, Ministry of National Development Planning, Ministry of Finance and Ministry of Public Works and Housing. Local governments and the private sector are other key partners in implementing the project activities. The project is implemented in 4 pilot provinces - Jambi, Riau, West Sulawesi and East Nusa Tenggara provinces.

The project started on 13 March 2017 and is in its third year of implementation. In line with the UNDP-GEF Guidance on Mid-Term Review (MTR), an MTR team consisting of a MTR Team Leader and an MTR Expert has conducted MTR for MTRE3 project. The MTR mission took place in selected venues in Jakarta and in Jambi and East Nusa Tenggara provinces between 13 – 29 May 2019.

The MTR of the MTRE3 Project assessed the progress towards the achievement of the project objectives and outcomes as specified in the Project Document and assessed early signs of project success or failure with the goal of identifying the necessary changes to be made in order to set the project on-track to achieve its intended results. The MTR has also reviewed the project's strategy, its risks to sustainability.

For the Progress Towards Results the MTR has rated the Project Objective as Moderately Satisfactory, the achievement rating for Outcome 1 as Satisfactory, for Outcome 2 as Moderately Satisfactory and for Outcome 3 as Satisfactory. Project Implementation & Adaptive Management has been rated as Satisfactory and Sustainability as Moderately Likely.

Recommendations and management response

Midterm Review recommendation A.1. (Outcome 1)				
To continue supporting provincial governments in review and timely approval of the draft Provincial Energy Plans. There is also a greater need to develop tentative financial plans/budgetary outlays for the Provincial Energy Plans. Project should provide technical assistance to develop respective financial plans in pilot provinces, this will greatly help in capturing the total scope of investments required.				
Management response:				
The planned Marginal Abatement Cost Curve (MACC) studies for each of the pilot provinces will provide the projection of the budget needed for implementing the Regional Energy Plans. The TOR has already been developed and is expected to be advertised by the end of October.				
Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
A.1.1 Recruitment of consultant to conduct MACC studies for the pilot provinces	November 2019-December 2019	PMU		Ongoing
A.1.2 Development of MACC studies for the pilot provinces	November 2019-April 2020	PMU		Pending

Midterm Review recommendation A.2 (Outcome 1)
To further support and collaborate with public and private sector stakeholders in the implementation of the recommendations of the completed Specific Energy Consumption Survey in government buildings and Investment Grade Audits in the remaining private buildings.

Management response:
 The recommendations of the SEC survey in government buildings have been shared with the government at the national level. Currently the project is conducting consultations with the national government where the results of the SEC survey are being provided as inputs for the revision of the PP (government regulation) 70/2009 on Energy Conservation.

The initial results of the SEC survey have been shared with the sub-national government for reference and benchmarking of energy consumption in the government buildings. Based on the SEC results, reports for each of the pilot provinces will be developed and shared to the provincial government.

The project will continue to follow up and monitor the progress of IGA implementation through one on one meetings with the building owners and facilitate meetings with ESCOs.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
A.2.1 Conduct consultations with the national government to share the SEC results for revision of the Presidential regulation no. 70/2009 on Energy Conservation	October 2019- December 2019	PMU	The interim report of the survey has been shared and presented to the MEMR on 3 rd Oct 2019.	Ongoing
A.2.2 Develop reports for the four pilot provinces based on the SEC results for government buildings	October 2019- June 2020	PMU	The project is now developing the SEC result report for Jambi.	Ongoing
A.2.3 Organize one on one meetings with the building owners and ESCOs to follow up the results of the IGAs	September 2019- end of project	PMU		Ongoing

Midterm Review recommendation A.3. (Outcome 1)
To enhance close collaboration with and build capacities of ESCOs to enable them to effectively and professionally provide required technical and human resources/services for energy efficiency in public and private sector projects.

Management response:
 The main capacity gaps of the ESCOs are limited access to financing and high perceived risks by the financing institutions and the insurance companies to invest in EE projects. To address these gaps, the project support to develop the capacity of the financing institutions and insurance companies to better understand EE investments. In addition, the project will provide continuous matchmaking with the ESCOs and building owners to identify potential project pipelines, consult with the financing institutions and insurance companies and facilitate EE business models through SEF support.

Key action(s)	Time frame	Responsible unit(s)	Tracking
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			Comments	Status
A.3.1 Capacity building of the financing institutions and insurance companies to better understand EE investments	September 2019 – project end	PMU		Ongoing
A.3.2 Matchmaking with ESCOs and building owners, consultations with financial institutions and insurance companies and provision of support through SEF to facilitate implementation of EE business models	September 2019 – project end	PMU	One meeting between building owner and financing institutions was held on 18 th September to discuss on Energy Saving Performance Contract (ESPC).	Ongoing

Midterm Review recommendation A.4. (Outcome 1)

To continue capacity building programs for the stakeholders in RE sector including government agencies especially at the provincial level, financing institutions, project developers, consulting companies, and policy makers.

Management response:

Capacity building is an important part of the project and is expected to be provided through the ongoing and planned project activities. One important capacity building activity for the government will involve RE/EE training for the permitting agency for investment (DPMPTSP), MEMR and the provincial and district offices of MEMR and Bappeda.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
A.4.1 Provide RE/EE training for DPMPTSP, national and local government	November 2019- December 2020	PMU	The first training/capacity building on EE/RE will be in Jambi, involving the DPMPTSP and Local ESDM. Expected date: 3 rd week of Nov 2019.	Ongoing

Midterm Review recommendation B.1. (Outcome 2)

To finalize Sustainable Energy Fund delivery mechanisms, as soon possible, to start efficient and effective utilization of the allocated USD 2.6 Million. It is suggested that the developed SEF delivery mechanisms should be finalized and approved in a special Project Board meeting, to be called at an early convenience, preferably not later than Sep 2019. Similarly, UNDP HQ should provide desired technical and administrative support to timely finalize and approve the institutional and administrative mechanisms for utilization of SEF.

Management response:

The procurement mechanism of the SEF has been approved by HQ in July 2019. The project will utilize the procurement mechanism of SEF to provide support for RE and EE projects. Currently the project is carrying out detailed discussions on SEF management arrangement with UNDP HQ, PT SMI and DGNREEC. The project has recruited an international financial consultant to provide the overview of current financial barriers and the design of solutions under the SEF, as justification for further approval of the SEF mechanisms by UNDP HQ. A Project Board meeting to discuss the SEF and receive approval from the Project Board will be conducted in December 2019.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
B.1.1 Hold a Project Board meeting to discuss the SEF and receive approval on its structure from the Project Board	December 2019	PMU, UNDP CO, Project Board		Pending
B.1.2 Recruit an international financial consultant to support to the further design of the SEF	October 2019	PMU, UNDP CO		Completed

Midterm Review recommendation B.2. (Outcome 2)

To identify and collaborate with willing partners in public and private sector in the design and implementation of the RE projects in the pilot provinces to achieve the target of 15 MW RE based power generation (7 MW mini-hydro, 6 MW biomass and 2 MW solar PV projects) by the end of project. Overall this target can be achieved in the remaining period as a 3 MW project is already about to close financially with PT SMI.

The remaining target can be achieved by identifying potential partners and provide desired technical support in the development and enhancing the bankability of the proposals. In this regard the project should connect/consult with organizations, who have already secured RE PPAs with PLN and are looking for external technical and financial support. If needed the project should also issue a call for expression interest to identify and select potential partners for establishment of RE projects.

Management response:

A market sounding for IPPs interested in RE projects was conducted in July 2019, after which the project received interest letters for UNDP's SEF support from 7 (seven) IPPs that in total have 9 (nine) projects. The total capacity of the projects is 71 MW. One additional RE project proposal (8 MW) is receiving support from the project to achieve financial close.

The project is conducting consultations with the banks (BNI, BRI) and PT SMI to identify additional RE projects that can be supported.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
B.2.1 Market sounding for IPPs to collect RE	July 2019	PMU		Completed

projects that can be supported by SEF				
B.2.2 Discussion with the banks (BNI, BRI) and PT SMI to identify additional project pipelines	September 2019- project end	PMU, CO		Ongoing

Midterm Review recommendation B.3. (Outcome 2)

To further support communities and build their capacities in effectively managing and operating the micro hydro projects, as well as further explore business models based on fee collection and introduction of Renewable Energy Service Providers (RESCOs) for operation and maintenance of micro-grids.

The managers and operators need to be further trained through refresher courses especially in technical and operational matters. It is also important to devise standard SOPs with service providers for timely maintenance in cases of major breakdowns. It is also suggested to establish a village committee to monitor the operations and related financial affairs of the micro hydro.

Management response:

It is expected that operation and maintenance of the micro hydro projects will be conducted by the communities with support of SOPs, while RESCOs can provide repair support when needed through a long-term maintenance contract with the communities. Long-term maintenance contracts with RESCOs will be issued to ensure that support is provided in case of major breakage of power plants that cannot be repaired by the communities.

A training session for operators of the micro hydro will be conducted either in Jakarta or in Jambi, by MEMR or consultant in 2020. Prior to the training, the knowledge gaps among the operators and managers will be identified.

An SOP for fee collection and O&M for the community is available for the micro-hydro project in Lubuk Bangkar village. The SOPs for the remaining three pilot projects in Ngaol, Air Liki and Air Liki Baru villages in Jambi province will be developed by the end of this year. One additional SOP will be developed for the new micro hydro project in Kerinci Seblat, Jambi province.

The village committees for all the four existing micro-hydro projects are in place. The village committees are responsible to manage the operations and the financial affairs of the micro-hydro power plants. The financial aspects and expenditures as well as technical problems are being regularly (twice per year) reported to the village governments.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
B.3.1 Organize a training session for operators of the micro hydro either in Jakarta or in Jambi, with support from by MEMR or external consultant	May 2020	PMU		Pending
B.3.2 Develop SOPs for existing micro-hydro projects in the villages	November 2019- December 2019	PMU		Pending

Ngaol, Air Liki and Air Liki Baru, Jambi province				
B.3.3 Develop an SOP for the new micro-hydro project in Kerinci Seblat, Jambi province	November 2019-April 2020	PMU		Pending
B.3.4 Issue long-term contracts with RESCOs for the micro-hydro projects	February 2020	PMU		Pending

Midterm Review recommendation C.1. (Outcome 3)

To foster efforts, involving relevant stakeholders, to further strengthen the National Registry System (SRN). Project should engage with and build capacities of relevant energy sector institutions to duly submit mitigation actions implemented by various stakeholder to SRN.

Management response:

This recommendation is in line with the project's work plan. The project will continue to have national trainings with stakeholders utilizing real data that will be an input to SRN. Participants of the trainings are MEMR and other ministries that implement mitigation actions within the energy sector. The trainings will help the participants to report the mitigation actions to SRN.

The project has supported development of a draft methodology on GHG calculation for mitigation actions in the energy sector for hydro power plants (off-grid), wind power plants (on grid), Solar PV power plants (on-grid). The project will continue to support development of draft methodology on GHG calculation for hydro power (on grid), wind power (off grid), solar PV (off grid), biomass power (on grid and off grid), chillers (energy efficiency), energy efficient lamps (energy efficiency).

The completed methodology has to be reviewed and agreed by the Ministry of Environment and Forestry for implementation. The timeframe for release of the methodology depends on the issuance of the new government regulation on GHG Calculation and Reporting, which is expected to be released in December 2019.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
C.1.1 Organize national trainings with MEMR and other ministries on registration of mitigation actions in SRN	November 2019-November 2020	PMU		Pending
C.1.2 Development of a draft methodology on GHG calculation for mitigation actions in the energy sector (hydro, wind solar).	August 2019	PMU		Completed

C.1.3 Development of a draft methodology on GHG calculation for mitigation actions in the energy sector (hydro, wind solar, biomass, chillers, lamps).	September 2019-December 2019	PMU		Ongoing
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Midterm Review recommendation C.2. (Outcome 3)

The MoEF officials also highlighted that there is a greater need for physical/on ground verification of the mitigation actions, as presently, due to limited resources, the MoEF is carrying out MRVs only through desk reviews of data uploaded in the SRN. If resources allow, project should provide necessary facilitation support to enable MoEF to physically verify some selected mitigation actions.

Management response:

This recommendation is also in line with the project's work plan. The project will support MRV site visits of the MoEF next year. A sample of 10 MTRE3 project sites (5 RE and 5 EE) will be monitored.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
C.2.1 Conduct MRV site visits of the MoEF in 10 project sites	January 2020-December 2020	PMU		Pending

Midterm Review recommendation D.1. (Project management)

A number of targets for objective level and Outcome-2 indicators are lagging behind. Therefore, there is a greater need to further accelerate the implementation of remaining project interventions. Having said this if the project management understand that there is a need for revision of targets then it should take the matter to the PB. However downward revision of targets will have its own implications, as project financial resources have been estimated keeping in view the prevailing targets in the results framework. If the project targets can't be achieved by the end of project then the most desirable option is, if resources allows, to request for no-cost extension of the project timeframe (up to 6-12 moths) to complete the targets, instead of revising the targets.

Management response:

This is a valid recommendation and the issue will be raised at the Project Board meeting for annual work planning in December 2019.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
D.1.1 Discuss the revision of the project targets during the Project Board meeting in December 2019	December 2019	PMU, UNDP CO, Project Board		Pending

Midterm Review recommendation D.2.

Project document envisaged the position of a Chief Technical Advisor, however the position remains vacant. Though the absence of CTA has been mitigated by advisory support from CO. However, it is recommended, if resources allow, project should bring on board a suitably qualified CTA, as soon. This will greatly help in further streamlining and acceleration of project implementation.

Management response:

The Project Board will consider this recommendation during the Project Board meeting in December 2019. This is in light of the expectation that once additional technical advisory support for RE/EE projects will be provided by a third party under the SEF mechanism, hence there will be no need to engage a CTA. The support from the third party will come from PT SMI and its consortium of experts that would provide technical assistance to enhance the quality of RE/EE project proposals and ensure financial close. This support would be funded through the SEF mechanism.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
D. 2.1 Bring up the recruitment of CTA during the Project Board meeting for consideration and decision	December 2019	PMU, UNDP CO, Project Board		Pending

Midterm Review recommendation D.3.

To employ a dedicated M&E expert/officer for the remaining period of project, who should develop and implement a rigorous M&E mechanisms and provide continuous feedback to the management during implementation and especially keep track of project outcomes and objective level indicators.

Furthermore, all stakeholders also need to be regularly involved in the M&E through six-monthly and annual review meetings/workshops. It is also suggested that project should conduct a comprehensive study, towards the end of project, to estimate the exact status of GHG reductions from project interventions.

Management response:

To better track the progress of the project results, the project will recruit an M&E Officer for the remaining period of the project. TOR is currently being developed.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
D.3.1 Recruit an M&E officer	November 2019	PMU		Pending

Midterm Review recommendation D.4.

To sort out and assemble all project knowledge products including studies, reports, publications etc., and disseminate in soft and hard to all stakeholders and to upload them to MEMR website for easy accessibility and future reference.

Management response:

The project will recruit a Communications Officer that will support development of knowledge products and communicate project results through a variety of channels such as websites, project briefs, reports and social media.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
D.4.1 Recruit a Communications Officer	November 2019	PMU		Pending

Midterm Review recommendation D.5.

There is a greater need to further emphasize on the gender mainstreaming during implementation of project interventions. It is recommended that project should engage a gender specialist who should develop and implement a gender mainstreaming strategy. Furthermore, mechanisms should be developed to collect and analyse gender-disaggregated data related to project output and outcome indicators.

Management response:

A contract with the Gender Expert has been signed. The Gender Expert will conduct a Gender Analysis and Gender Action Plan for the project focusing on the national and sub-national level. The work will be done between October 2019-March 2020.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
D.5.1 Recruit a Gender Specialist	November 2019	PMU		Ongoing
D.5.2 Conduct gender analysis and gender action plan on national and sub-national level	November 2019-April 2020	PMU		Pending

Midterm Review Recommendation E.1.

To further explore co-financing arrangements with existing partners like Bank Jambi and BAZNAS and other potential financial institutions to establish and scale up RE and EE projects in times to come. The project also needs to work closely with financial institutions like PT SMI, OJK and especially with private sector banks, to develop a priority regime to ease financing of future sustainable energy projects.

Management response:

The project is currently providing technical assistance for a RE pilot project in North Sulawesi, through SEF modality. The RE project is expected to receive CSR funds from Bank Sulutgo (in cash) and Sharp (in-kind, equipment) for the RE project tin North Sulawesi. Also, a discussion has been initiated with

Bank Jawa Barat to utilize CSR funds in a waste to energy management project. Discussion with other banks on supporting RE projects through CSR funds as well as through loans will be carried out continuously throughout the project.				
Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
E.1.1 Discussions with banks to provide co-financing for RE projects as part of the assignment of the international financial consultant	September 2019 – project end	PMU		Ongoing

Midterm Review recommendation E.2.

To formulate a timely and pragmatic exit strategy, towards the last year of the project, outlining issues, ways and means to smoothly phase out and handover interventions to partners, to ensure sustainability and continuity. The exit strategy shall also highlight possible future options for replicability and scaling up of RE and EE interventions in future.

Management response:

This is a good recommendation. A draft exit strategy will be developed by mid next year, to be approved by the Project Board by July 2020. Any revisions will be done until end of December 2020.

Key action(s)	Time frame	Responsible unit(s)	Tracking	
			Comments	Status
E.2.1 Draft of Exit strategy developed	April 2020-June 2020	PMU		Pending
E.2.2 Present the final draft Exit Strategy to the Project Board for approval	July 2020	PMU		Pending
E.2.3 Make any revisions of the Exit Strategy if required	July 2020-December 2020	PMU		Pending