



Global Environment Facility

MOHAMED T. EL-ASHRY
CHIEF EXECUTIVE OFFICER
AND CHAIRMAN

April 3, 2000

Dear Council Member:

The World Bank, as the Implementing Agency for the project entitled, *Russian Federation: Ozone Depleting Substance Consumption Phase Out Project: Tranche III – Special Initiative (SI) for ODS Production Closure*, has attached the proposed project document for CEO endorsement prior to final approval of the project document in accordance with World Bank procedures.

The SI is being presented before the rest of Tranche III documentation because its preparation is more advanced, and the deadline of June 30, 2000 for production closure, requires more urgent implementation of this initiative.

The Secretariat has reviewed the project document. It is consistent with the proposal approved by the Council in May 1999 and the proposed project remains consistent with the Instrument and GEF policies and procedures. The attached explanation prepared by the World Bank satisfactorily details how Council's comments and those of the STAP reviewer have been addressed. I am, therefore, endorsing the project document.

We have today posted the proposed project document on the GEF website at www.gefweb.org. If you do not have access to the Web, you may request the local field office of UNDP or the World Bank to download the document for you. Alternatively, you may request a copy of the document from the Secretariat. If you make such request, please confirm for us your current mailing address.

Sincerely,

Cc: Alternates, Implementing Agencies, STAP

OFFICE MEMORANDUM

DATE: March 15, 2000

TO: Mr. Mohamed El-Ashry, CEO/Chairman, GEF

FROM: Lars Vidaeus, GEF Executive Coordinator 

EXTENSION: 34188

SUBJECT: **Russian Federation Ozone Depleting Substances Phaseout Project: Tranche III - Special Initiative (SI) for ODS Production Closure CEO Endorsement**

1. We are attaching an electronic copy of the Project Document for the Special Initiative for Ozone Depleting Substances Production Closure Project (SI) for your final endorsement. The SI is being presented before the rest of Tranche III documentation because its preparation is more advanced, and the deadline of June 30, 2000 for production closure, requires the more urgent implementation of this initiative.

Background and Timeline

2. The Government of Russia is currently finalizing a resolution to authorize signing of the Special Initiative Consumption Project Grant Agreement. Government Resolutions banning ODS production after July 1, 2000 and ODS import and export after March 1, 2000 are now in force, satisfying a key condition of effectiveness. The Special Initiative Technical Review Group (SITRG) has given its formal approval to the seven enterprise closure plans and associated monitoring and verification procedures. The enterprise closure plan documents have been agreed with the Bank and will form a legally binding part of the Production Closure Compensation Payment Agreements for each beneficiary enterprise. It is anticipated that all other conditions of effectiveness, including the contracting of the Monitoring and Verification Consultant, will be satisfied during April, 2000. Subject to the CEO's endorsement of the GEF contribution, we anticipate the Special Initiative Grant Agreement would be ready to be made effective by early May, 2000.

3. The appraisal of the other Tranche III activities is currently underway and we expect to submit the project documents for your endorsement by May, 2000.

4. The SI project document is fully consistent with the objectives and scope of the proposal endorsed by Council as part of the May 1999 work program for the Third Tranche, specifically with regard of the contribution of US\$8.5 million to the Special Initiative Trust Fund agreement of the Russian Federation GEF ODS Consumption Phaseout Project. The revised document reflects comments made during work program endorsement by GEFSEC, STAP reviewers, and the May, 1999 GEF Council.

5. The Bank confirms that the GEF Council's comment requesting that the project's closure activities include all known facilities producing Annex A and Annex B substance for end use has been addressed. The scope of the final arrangements covers all Annex A and Annex B substances, including halon production which was not originally contemplated when the project was initially designed. The Bank confirms that the project's legal documents address obligations of the Russian Federation for the permanent closure of all production facilities, including the unlikely event that a new facility should be established in the future. Failure to fulfil this obligation would result in the Russian Federation having to repay the full Special Initiative Grant.

6. Please let me know if you require any additional information for consideration, and we look forward to receiving your endorsement letter.

Attachments

**Document of
The World Bank**

Report No: 20038-RU

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED GEF GRANT
IN THE AMOUNT OF US\$8.5 MILLION EQUIVALENT
TO THE
RUSSIAN FEDERATION
FOR THE
SPECIAL INITIATIVE FOR ODS PRODUCTION CLOSURE IN THE RUSSIAN
FEDERATION
MARCH 2000

Environmentally and Socially Sustainable Development Sector Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(As of February 7, 2000)

Currency Unit = Russian Ruble (RUB)

RUB 28.778 = US\$ 1

US\$ 0.035 = 1 RUB

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CAS	- Country Assistance Strategy
CFC	- Chlorofluorocarbons
CPPI	- Center for Preparation and Implementation of International Projects on Technical Assistance
CTC	- Carbon Tetrachloride
EA	- Environmental Assessment
EMP	- Environmental Management Plan
EMS	- Environmental Management System
FSU	- Former Soviet Union
GEF	- Global Environmental Facility
GWP	- Global Warming Potential
GoR	- Government of the Russian Federation
HCFC	- Hydrochloroflouorocarbon
HF	- Hydrogen Fluoride
HFC	- Hydrofluorocarbon
IAC	- Inter-Agency Commission on Protection of the Ozone Layer
ICB	- International Competitive Bidding
IS	- International Shopping
JSC	- Joint Stock Company
MCF	- Methyl Chloroform
MP	- Montreal Protocol
MPMF	- Montreal Protocol Multi-lateral Fund
MT	- Metric Ton
NCB	- National Competitive Bidding
NPAF	- National Pollution Abatement Facility
NS	- National Shopping
ODP	- Ozone Depleting Potential
ODS	- Ozone Depleting Substance
OORG	- Ozone Operations Resource Group
PCE	- Perchloroethylene
PCCPA	- ODS Production Closure Compensation Payment Agreement
PIP	- Project Implementation Plan
PIU	- Project Implementation Unit
PTFE	- Polytetrafluoroethylene
QCBS	- Qualification and Cost Based Selection
VOC	- Volatile Organic Compound
SEAP	- Sectoral Environmental Action Plan

- SCEP - State Committee of the Russian Federation for Environmental Protection
- STAP - Scientific and Technical Assessment Panel
- SITRG - Special Initiative Technical Review Group
- TA - Technical Assistance
- TFE - Tetrafluoroethylene

Vice President: Johannes Linn, ECAVP
Country Director for Russia: Michael Carter, ECC10
Sector Director: Kevin Cleaver, ECSSD
Sector Manager: John Hayward, Acting ECSSD
Program Team Leader: Konrad von Ritter, ECSSD
Task Team Leader: Vladimir Tsirkunov, ECSSD

Russian Federation
Special Initiative for ODS Production Closure

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Russian Federation
Special initiative on ODS Production Closure

Project Appraisal Document

Europe and Central Asia Regional Office
ECSSD

<p>Date: November 11, 1999</p> <p>Country Director for Russia: Michael Carter</p> <p>Project ID:TA-P049968 Sector: Environment</p> <p>GEF Supplement ID: RU-GE-P008800</p> <p>Lending Instrument: Grant</p>	<p>Task Team Leader: Vladimir Tsirkunov</p> <p>Program Team Leader: Konrad von Ritter</p> <p>Sector Director: Kevin Cleaver</p> <p>Sector Manager: John Hayward, Acting</p> <p>Program Objective Category: Environmentally Sustainable Development</p> <p>Focal Area: Ozone Depleting Substances</p> <p>Program of Targeted Intervention: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
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Project Financing Data	<input type="checkbox"/> Loan	<input type="checkbox"/> Credit	<input type="checkbox"/> Guarantee	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Other [Specify]
For Loans/Credits/Others:					
Amount (US\$M/SDRm): US\$26.2m/SDR_____					
Proposed terms:					
Grace period (years): N/A	<input type="checkbox"/> Multicurrency	<input checked="" type="checkbox"/> Single currency, specify US\$			
Years to maturity: N/A	<input type="checkbox"/> Standard Variable	<input type="checkbox"/> Fixed	<input type="checkbox"/> LIBOR-based		
Commitment fee: N/A					
Service charge: N/A					

Financing plan (US\$M):			
Source	Local	Foreign	Total
Government			
Cofinanciers			
IBRD			
IDA			
GEF		7.7	7.7
Austria		0.19	
Denmark		1.95	
Finland		0.97	
Germany		0.97	
Italy		0.39	
Japan		1.95	
Norway		1.95	
Sweden		0.97	
United Kingdom		3.31	
United States		5.84	
Total Donors		18.5	18.5
Total		26.2	26.2

A: Project Development Objective

1. Project development objective and key performance indicators (see Annex 1):

The project development objective is the permanent closure of production capability at the seven enterprises in the Russian Federation having existing or latent capacity to produce ozone depleting substances (ODS) as defined in the Montreal Protocol (MP) Annex 1 and Annex 2. In doing so, the project will facilitate the orderly transition to the production of non-ODS substitutes through maintenance of technological capacity in the producing enterprises. All this is to be accomplished with the minimum of adverse environmental and social impact. The project will also assist in strengthening the existing institutional framework for the control of ODS production, consumption and trade at both the national and local level. The key performance indicators will be the i) verifiable elimination of production capability; ii) the absence of any resumption of ODS production; iii) the appropriate disposal of closure related wastes; and iv) compliance with bans on ODS import and export.

2. Project Global objectives and key performance indicators (see Annex 1):

The principal global objective is to bring the Russian Federation into compliance with its overall obligations as an Article 2 Country under the Montreal Protocol (MP) with respect to the production of Annex 1 and Annex 2 ODS through permanent cessation of ODS production for domestic use and export.

B: Strategic Context

1. Sector-related CAS goal and GEF Operational Program supported by the project:

a. Sector-related Country Assistance Strategy (CAS) goal supported by the project (see Annex 1):

CAS document number: R-98-288 Date of latest CAS discussion: December 22, 1998

The proposed Special Initiative supports the CAS objective of environmentally sustainable development.

b. GEF Operational Strategy/Program objective addressed by the project:

The GEF has supported the phase-out of ODS consumption in Russia under the ODS Consumption Phase-out Project. The proposed Special Initiative complements this activity by eliminating the capacity for ODS production. The GEF contribution to the Special Initiative Project comes under the ODS Focal Point and it will be financed from the Third Tranche of the ODS Consumption Project.

2. Main sector issues and Government strategy:

Although it has made substantial progress toward the phase-out of ODS, Russia remains one of the world's largest producers and consumers of ODS. This is of major concern to the international community, resulting in the commitment of a number of donor countries to providing dedicated funding, both directly and through the GEF, to address this situation. The Special Initiative Project, in association with the GEF ODS Consumption Phase-out Project, is a key component of the Russian Federation's international commitment for the phase-out of ODS in compliance with its acknowledged obligations under the Montreal Protocol in the year 2000. More directly, the Special Initiative Project is fundamental to the ongoing implementation of the Country Program on ODS phase-out adopted by the Government as a national environmental priority and agreed to with the international community.

3. Sector issues to be addressed by the Special Initiative Project and strategic choices:

Seven enterprises in the Russian Federation have active or latent ODS production capability in twelve production facilities. These operations were developed to serve the needs of the entire Soviet Union and its client states in the region. The elimination of this production capability is a key component in the phase-out

of ODS consumption in the region and reduction of ODS supplies potentially available on the world market. The Bank and other implementing agencies are undertaking Montreal Protocol Multilateral Fund (MPMF) and GEF funded consumption phase-out projects throughout the region. The ultimate success of these initiatives depends in part on the elimination of this source of supply. In terms of strategic choices, the main option considered was to simply concentrate on the elimination of consumption through financing conversion to non-ODS technology of users in major sectors. This combined with the declining viability of Russian ODS production in economic and technical terms, might well lead to the elimination of active Russian production. However, it is unclear how long this process will take, thus making the cumulative impact of continued production in a global context unpredictable. Furthermore, the retention of latent consumption could always lead to periodic resumption of production. This possibility is reinforced by the continuing existence of an international black market for illegal ODS being imported into OECD countries, which could potentially sustain illegal production despite the best efforts of the Russian Government. Similarly, legitimate demand for ODS from developing countries could also slow down the rate at which Russian ODS production capability is eliminated. For these reasons, the proactive approach of providing compensation for the immediate permanent closure of production facilities was selected as best meeting the objectives of both the international community and of Russian Environmental policy.

C: Special Initiative Project Description Summary

1. *Special Initiative Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):*

<u>Component</u>	<u>Category</u>	<u>Cost Incl. Contingencies (US\$M)</u>	<u>% of Total</u>	<u>Donor- financing (US\$M)</u>	<u>Donor- financing As % of Total</u>	<u>GEF Financing (US\$M)</u>
1. Enterprise Compensation Payments		24.7	94.3	17.40	70.4	7.3
2. Enforcement Institutional Strengthening		0.3	1.1	0.20	66.7	0.1
3. Monitoring and Verification		0.6	2.3	0.45	75.0.	0.15
4. Enterprise Technology Transfer and Environmental Management System Assistance		0.2	0.8	0.15	75.0	0.05
5. Counterpart Incremental Operating Costs		0.4	1.5	0.30	75.0	0.1
	Total	26.2	100	18.5	70.6	7.7

2. *Key policy and institutional reforms supported by the Special Initiative Project:*

The Special Initiative Project supports the Russian Federation Country Program for ODS phase-out and the framework of regulatory measures put in place since 1996 that give it effect and legal authority. In particular, it supports the two most recent measures, namely the approval of Government Resolutions banning ODS production (effective July 1, 2000), and banning the import and export of ODS (effective on March 1, 2000). Passing of both resolutions was established as a condition of Grant Effectiveness by agreement with the donors. Through technical assistance, the Special Initiative Project serves to support the further refinement and enforcement of this institutional framework on an on-going basis. This is applicable at both the national and local level, with the latter being recognized as the key enforcement and monitoring vehicle for environmental regulation, including ODS related control.

3. *Benefits and target population:*

The principal benefit derived from the Special Initiative Project is global in nature through its contribution to the reduction of atmospheric ozone depletion. The Russian Federation is currently estimated to possess 47% of the world's latent ODS production capacity, and in 1998, accounted for 11% of global production.

The elimination of this production capacity would add substantially to global efforts to reverse atmospheric ozone depletion. In this context, the Special Initiative Project is arguably the most cost-effective ODS phase-out initiative yet undertaken by the international community. It also contributes to climate change initiatives through the reduced emissions of high Global Warming Potential (GWP) materials. Therefore, in this context, the Special Initiative Project's primary target population is global. At the country level, the principal Special Initiative Project benefits are enhancement of the country's credibility through success in meeting one of its international environmental obligations, and the institutional strengthening which will allow Russia to sustain its ODS phase-out efforts. At the enterprise level, the compensation payments will help to cover, at least partially, the losses from foregone ODS production and support enterprise efforts to move toward non-ODS related production and environmental protection.

4. Institutional and implementation arrangements:

The Special Initiative Project will be undertaken as a companion activity to the GEF ODS Consumption Phaseout Project with essentially the same institutional and implementation arrangements. Overall Special Initiative Project supervision will be provided by the Inter-Agency Commission for Protection of the Ozone Layer (IAC), which is made up of the major institutional stakeholders within the Government and oversees the development and implementation of all institutional initiatives undertaken under the ODS Phase-out Country Program. The designated implementation agency within the government is State Committee for Environmental Protection (SCEP). Under the SCEP, primary implementation responsibility lies with the Centre for Preparation and Implementation of International Projects on Technical Assistance (CPPI) which administers a number of international environmental technical assistance and investment projects including the Bank financed Environmental Management Project. Within CPPI, direct implementation responsibility lies with a dedicated Ozone Project implementation unit that also supervises implementation of the GEF ODS Consumption Phase-out Project and acts as the IAC Secretariat. This Ozone Unit can draw on CPPI resources for procurement and disbursement and on CPPI's National Pollution Abatement Facility Directorate for selected environmental and technical expertise.

The Ministry of Finance, as representative of the Recipient, would enter into a Special Initiative Project Implementation Agreement, acceptable to the Bank. Other signatories to this agreement would be SCEP, CPPI, and government agencies with membership on the IAC who have supervisory responsibility for various participating enterprises. These are the Ministry of Economy, Ministry of Atomic Energy and Ministry of Science and Technology. The SCEP and CPPI would enter into ODS Production Closure Compensation Payment Agreements (PCCPA), acceptable to the Bank, with each of the seven enterprises. These closure agreements would include a detailed closure plan specifying concrete steps to be undertaken for permanent production closure in each enterprise. The appropriate supervising ministry and Agent bank (Vnesheconombank) would also be a signing party to these agreements. Payments would be made to enterprises as partial compensation associated with their closure of ODS production, based on clearly defined and verifiable outcomes agreed with each enterprise, and included in the closure plan. The compensation would be disbursed in two payments of 30% and 70%. The first payment could be disbursed once all enterprises have signed a PCCPA acceptable to the Bank, while the second payment could be disbursed after all closure activities have been completed and verified at all seven enterprises.

The Bank will disburse the compensation funds from the two tranche releases into a Compensation Payment Account opened by the GoR in an agent bank acceptable to The World Bank. The Compensation Payment Account should be used solely and exclusively for the payments under the ODS Production Closure Grant Agreement in order to enable the auditor to clearly review account operations. The GoR will then be responsible for allocating compensation payments to the ODS Producing Enterprises and for overseeing the use of such funds by the ODS Producing Enterprises. The compensation payments by the GoR to the ODS Producing Enterprises would be made from the Compensation Payment Account to accounts that the enterprises would open in the agent bank. The compensation funds disbursed to the Compensation Payment Account will be in US dollars. While it is preferred that the compensation payments to the enterprises be disbursed in US dollars, it is recognized, that applicable Russian regulations

might limit this. The GoR is exploring avenues available to allow the compensation payments to be made to the enterprises in US dollars.

D: Project Rationale

1. Project alternatives considered and reasons for rejection:

The basic rationale for the Special Initiative Project is the international community's desire to eliminate Russian ODS production capability, which is considered a major long term contributor to continuing atmospheric ozone depletion and a potential source of illegal ODS on the world market. The international community also supports Russia's efforts to meet its international obligations on ODS phase-out. In this regard, Russia is already partially capable of controlling ODS production through a declining quota system on ODS production that would theoretically eliminate production for non-essential domestic sale in the year 2000. However, as in other Article 2 countries, production capacity and production levels as permitted under the Montreal Protocol, would remain. The alternative options considered in undertaking the Special Initiative Project were as follows:

- a) Concentrate on Consumption Phase-Out: This option essentially assumes that ODS production will decline to zero as domestic demand is eliminated and that the general state of the production capability will decline until it is inoperable. While this option would see the cessation of actual production at some point, the time this would take is indeterminate. It could be anticipated that a substantial amount of latent capability would exist well into the next decade, and continuing limited production could be sustained by legal developing country demand and potentially, illegal demand in OECD countries and the FSU. As a result, such an option would not meet the international community's objective and Russia's commitment to eliminate production capacity permanently in the near term.
- b) Apply International Pressure to Force Russia to Meet Its MP Obligations: This option would involve the international community putting pressure on Russia to fulfill its obligations, using whatever sanctions it could collectively muster, including trade provisions under the Montreal Protocol. However, it is unlikely that such actions would be effective. On the contrary, these actions might be counterproductive. So far, Russia has always conditioned its commitments and based its efforts to phase-out ODS production on the assumption of international assistance, noting that such assistance was first discussed by the Bank and the international community in 1996. Given this, and the absence of any realistic independent financial capacity by the Government or the enterprises to undertake closure, the perceived withdrawal of financial support could create a negative reaction.
- c) Expand the GEF Special Initiative Project to Include Production Phase-out: At the conceptual stage of the GEF ODS phase-out Project, the production sector was to be included in that activity's scope to provide a comprehensive phase-out program. However, the GEF Council decided that support should be limited to the consumption sector. This was a consequence of limited funding availability, and of the absence at that time of substantive MPMF experience in production phase-out initiatives. Substantial GEF funds have been mobilized as a result of lessons learned in phase-out initiatives. In addition to these funds other resources are also being mobilized, since the magnitude of the investment would not have been adequately covered with GEF funds alone.

3. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned)

Sector issue	Special Initiative Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
<u>Bank-financed</u> Environmental Institutional Strengthening/Environmental Industrial Investment	Environmental Management Project	U	S
ODS Consumption Phase Out project Ozone Depletion	GEF ODS Consumption Phase-Out Project	S	S

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the Project design:

The principal lessons learned from previous projects in the sector, such as the Environmental Management Project (EMP) and the GEF ODS Consumption Phase-out Project, are:

- a) Simplicity of Disbursement Mechanism Based on Outcome: Experience under the EMP and ODS Phase-out projects has shown that government and international financial institution rules for disbursement and procurement are often ill suited for the enterprise sector. Within these existing rules, this Special Initiative Project has attempted to design a simple disbursement mechanism which involves only two payments based on very well-defined outcomes with measurable specific performance criteria. Thereby, the Special Initiative Project design ensures that the key objective of the Special Initiative, which is permanent ODS production closure, will be achieved, and that payments will reach beneficiary enterprises without delay. Furthermore, by backloading the second payment (70% of total) and tying it to verification of production closure in all enterprises, these enterprises will have a strong incentive to complete their tasks quickly and to exercise 'peer pressure' on those who move more slowly or not at all.
- b) Open and Multi-Stakeholder Design Process: The Environmental Management Project and particularly its Policy and Regulatory component, has shown that no major environmental policy initiative can be developed by environmental agencies in isolation. In particular, for initiatives involving the industrial sector, it is important that major economic agencies such as the Ministry of Finance and Ministry of Economy, as well as the enterprises buy into the concept. At the Government level, this stakeholder buy-in process is off to a good start thanks to the creation of the Inter-Agency Commission on Protection of the Ozone Layer (IAC). The IAC has already proven to be an effective consensus vehicle in implementing the ODS Country Program and the GEF Consumption Phase-out Project. The IAC has also been a major factor in SCEP and CPPI successfully obtaining multi-party agreement on the concept of closing ODS production facilities. This agreement recognizes the variety of institutional interests and concerns involved, including the elimination of key industrial capacity in economic and security terms. The IAC was also instrumental in obtaining approval at Prime Minister level for a Government Resolution banning ODS production, which is a condition of effectiveness of this Special Initiative Project. As a result, the Special Initiative Project will utilize the IAC as its primary supervisory instrument in order to sustain the consensus on the operation. Furthermore, the Special Initiative Project foresees a multi-party implementation agreement including those key government

agencies exercising supervisory functions over ODS producing enterprises. At the donor level, the Bank created the Special Initiative Technical Review Group (SITRG) and will fund its operation through the Bank's administrative portion of the SI Trust Fund. The Bank also regularly disseminates an "SI Update" to keep the donor community informed about progress in the Special Initiative Project.

- c) Utilization of Established Implementation Agencies: The technical capacity of the implementing agency has proven to be the critical factor in determining the speed of preparation and implementation. This Special Initiative Project benefits from using the existing CPPI and its Ozone Unit whose capacity has been built up over the last five years, thus avoiding the cost and time needed to build such capacity from scratch.
- d) Emphasis on Regional and Local Level Involvement: The experience from the Environmental Management Project demonstrates the need and value of involvement by regional and local authorities for effective implementation, instead of depending on the declining resource base and changing structure of national institutions. For this Special Initiative Project, the key monitoring and verification responsibility has been formally delegated to the respective regional branches of SCEP. The SCEP regional branches will also be the focus of practical enforcement-related technical assistance embodied in the Special Initiative Project.
- e) Familiarity with the Industrial Sector: The Special Initiative Project has benefited from the overall exposure to the nature and state of the Russian industrial sector gained from related projects. Of particular note is the experience of the National Pollution Abatement Facility (NPAF) and the Sectoral Environmental Action Plans (SEAPs) within the Environmental Management Project, as well as that obtained from the GEF ODS Consumption Phase-out Project. This knowledge has been important in understanding the difficulties under which the participating enterprises must operate, the nature of the technologies they employ, their business priorities, and the potential impact the Special Initiative Project will have on them. For example, the Special Initiative Project design specifically takes into account the local practices to preserve and rehabilitate process equipment to a greater degree than would be undertaken in the industrialized countries.

4. Indications of borrower commitment and ownership:

The Government of Russia (GoR) has demonstrated its strong commitment to the Special Initiative Project by implementing the basic institutional prerequisites related to fulfilling its international obligations under the Montreal Protocol. These begin with the adoption of the Country Program as national policy in 1996, targeting the year 2000 for Article 2 country compliance with the Montreal Protocol and the London Amendment. Implementation of this policy has been evidenced by a series of regulatory measures including strengthening of the IAC, implementation (since 1996) of a quota system governing the production of ODS, and a permitting system governing exports. In direct support of the Special Initiative Project, the government has adopted Resolutions banning ODS production effective July 1, 2000, and banning all import and export of ODS effective March 1, 2000, which themselves represent key conditions of grant effectiveness and provide the authority for enforcement of permanent closure. It should be noted that Russia is effectively going beyond the compliance actions of many other Article 2 countries, in that it is undertaking to permanently close ODS production facilities and ban exports. Some Article 2 countries retain their right to leave facilities operational for purposes of essential use production and export to Article 5 countries, as permitted under the MP. This overall commitment was formally demonstrated in October 1998 at the Special Initiative Project donors roundtable meeting where the Chairman of SCEP on behalf of the GoR confirmed the country's intention to close ODS production facilities as called for in the Special Initiative Project Prospectus.

In addition, the Government is assuming a grant repayment obligation in the event of any resumption in ODS production covered by the Special Initiative Project, and is committed, on a voluntary basis, to comply with the terms of the Copenhagen Amendment limiting transitional substance (HCFC's) production. At the enterprise level, all seven producing enterprises demonstrated their commitment in mid-1998 by signing protocols of agreement with SCEP. These protocols stated their respective commitments to production closure in 2000 and assumed obligations for repayment of compensation in the event of non-

compliance. Senior management representatives of each enterprise confirmed this commitment at the October 1998 donors roundtable meeting. Since that time, each enterprise has developed and presented a comprehensive closure plan. These have been agreed to in the final form that will appear in the PCCPA's, after technical appraisal by the Bank and review by an international group of experts (SITRG). In terms of Special Initiative Project ownership, SCEP and particularly CPPI have taken the lead role in Special Initiative Project preparation since February 1998, when the Bank formally informed the GoR of the availability of donor and GEF funding. Recognizing that this activity has been undertaken under the direct supervision of the IAC, the Special Initiative Project as it is currently proposed should benefit from a high level of stakeholder ownership.

5. Value added of Bank and Global support in the Special Initiative Project:

The Bank's role in support of this Special Initiative Project was initially in assembling donor funding and in facilitating the participation of the GEF. The Bank has subsequently provided technical support for the preparation of the Special Initiative Project. It also helped in the coordination with the GEF financed ODS Consumption Phase-out Project through its supervisory role, and through arranging for the GEF contribution to the Special Initiative. Funding for that GEF contribution under the Third Tranche of the ODS Consumption Project was approved for inclusion by the GEF Council in May 1999. GEF resources also supported the enterprise in closure plan preparation, by financing an international consultant who assisted the enterprises in the process. The Bank also coordinates the Special Initiative Project's interface with donors and has undertaken the administrative tasks of establishing a consolidated trust fund for donor contributions. Finally, the Bank has created the Special Initiative Technical Review Group (SITRG), and is funding its operation. As a unique feature, the SITRG includes three representatives of the donors. The SITRG has proven to be a valuable resource both in ensuring that the interests of the international community are satisfied, and in providing both the Bank and counterparts with technical guidance. The continued involvement of the SITRG for supervision during Special Initiative Project implementation is anticipated.

E: Summary Project Analysis (Detailed assessments are in the Special Initiative Project file, see Annex 6)

1. Economic (not applicable)

2. Financial (not applicable)

3. Technical:

The Special Initiative Project technical assessment primarily relates to the enterprise-specific closure plans (Special Initiative Project Component 1 – Annex 2). Of the twelve actual production installations in the seven enterprises, five production operations are already shut down and currently inoperable (JSC “Altaichimprom” – CFC-11/12, GIPKh – CFC-115, halon 1211, halon 1301, JSC “Kirovo-Chepetsk” – halon 2402). Closure activities applicable to these involve completion of dismantling and monitoring of retained equipment that may have other applications. The closure plans for three of the operating facilities (JSC “Halogen” – CFC-11/12, halon 2402, JSC “Chimprom” – CFC-113) involve their substantive dismantling and elimination of any actual continuing production activity for any purpose. Closure of these are readily verified and monitoring would focus on retained equipment. Three of the producing facilities have proposed conversion of the present facilities to ODS substitutes production. In one case (JSC “Kaustic” – CFC-11/12), the conversion involves a fundamental change in process technology accompanied by dismantling and removal of all ODS-specific equipment. In the other two cases (JSC “Chimprom” – CFC-11/12, JSC “Redkino Pilot Plant” – CFC-13), the conversions involve relatively minor changes in the physical operations, being mainly related to changes in feedstock and synthesis pressure and temperature. In both these cases, it is technically possible to return to ODS production periodically. In such cases, particularly JSC “Chimprom”, the focus of monitoring and verification would be based on access to production records and operating data, along with sampling access for feedstock and product. In

the final case (JSC “Kirovo-Chepetsk” – CFC-113), the closure plan simply involves a reduction in production capacity, rather than its elimination, since the primary function of the facility is to legally produce feedstock for another product. While the physical capacity reduction can be readily verified since it involves the dismantling of a complete production unit, the continued production of CFC-113 will leave the potential for non-compliance should any of this material be illegally directed to an end use. In this particular facility, detailed monitoring of production is complicated by its security status and the access limitations this could impose. However, the risk of non-compliance remains relatively low, given the willingness of the enterprise to allow unannounced access, account for CFC-113 production utilized for legal applications, and to remove all capacity for high volume off-site packaging of the material.

The technical assessment of the closure plans also involves two related aspects that could be relevant to the Special Initiative Project’s overall effectiveness: i) technical capacity to revert to ODS production; and ii) monitoring and verification arrangements.

i) Technical Capacity to Revert to ODS Production. Two of the participating enterprises (JSC “Halogen”, JSC “Kirovo-Chepetsk”) operate separate HCFC-22 production units. In both cases, these facilities were designed, and operated primarily to produce chemical feedstock not related to ODS. However, like any such plant, they would theoretically provide capability to produce CFC-11/12 by changing feedstock and synthesis parameters. In both cases, the enterprises have acknowledged this concern and are providing access to plant outputs for sampling purposes, plant records applicable to continuous on-line product quality control analysis data and feedstock purchase records. Subject to the effectiveness of monitoring and verification efforts, this will provide sufficient assurance of compliance. The second issue relates to the monitoring of ODS inventories produced prior to July 1, 2000, particularly those intended for the commercial security banking allowed in the regulatory quotas. Four enterprises have such quotas allocated to them for a total of 9000 MT of CFC-11 and 1,400 MT of CFC –113 (JSC “Halogen” – CFC-11/12, JSC “Kaustic” – CFC-11/12, JSC “Chimprom”- CFC-11/12, CFC-113 and JSC “Kirovo-Chepetsk” – CFC-113). Of these, only JSC “Halogen” is actively maintaining an inventory for this purpose. The others are only considering it if commercial commitments are made in advance, at which point they may utilize initial compensation payments to finance the required speculative production. All enterprises have agreed to allow detailed monitoring of inventory records and sampling as part of the closure plans, inclusive of customer identification, something that will allow tracking of this material and provide assurance that it is not being exported.

ii) Monitoring and Verification Arrangements. The other aspect of the Special Initiative Project technical assessment relates to arrangements made for monitoring and verification (Special Initiative Project Component 2 Annex 2), noting its importance in supporting the effectiveness of closure plan implementation, particularly where technological capability to revert to ODS production is retained. Monitoring and verification will be conducted from two perspectives: regulatory monitoring by Russian authorities and independent monitoring by international experts. The former will be provided by SCEP through its respective regional branches. The latter will be provided in the near term (for one year after all closure activities are verified) by a consulting firm, contracted by CPPI in accordance with Bank procurement practice, and by the Bank up to five years after closure. The Bank will provide this as part of its supervision responsibility, potentially using experts from the SITRG. The monitoring and verification tasks for the international consultants have been comprehensively defined in a Terms of Reference prepared by CPPI and agreed with the Bank. From a technical perspective, this is judged as covering the required tasks both to ensure monitoring of closure activities as they are undertaken and to verify that they are sustained. In addition, it provides for training and technical support of local regulatory authorities in undertaking their obligations. Finally, it encompasses the preparation of detailed technical specifications for the supply of appropriate equipment and consumables that are required to physically undertake the monitoring and verification tasks.

In summary, the Special Initiative Project technical assessment concludes that the agreed-to closure plans meet the requirements of the Special Initiative Project in that they provide for the elimination of Annex 1 and Annex 2 ODS production for end-use, and do so in a manner that can be monitored and verified. This conclusion has been supported by the SITRG in its review of the closure plans and draft technical appraisal reports. However, it is emphasized that this assessment is contingent on the early mobilization of the monitoring and verification consultant, and on confirmation of the capacity of the delegated regulatory authorities to undertake the on-going monitoring of implementation. With respect to the former, the mobilization of the monitoring and verification consultant is a condition of grant effectiveness. With respect to the latter, SCEP needs to undertake a comprehensive familiarization program immediately to ensure that the specific institutions and staff assigned to this responsibility have a full appreciation of their role upon grant effectiveness.

4. Institutional:

a) Executing Agencies:

The assessment of SCEP as the executing agency is positive. The effective Special Initiative Project preparation efforts to date support this conclusion, in terms of its ability to develop and sustain the government and enterprise commitment, implement regulatory control measures, and coordinate the development of effective closure plan proposals. In making this assessment, it is also noted that much of this work has effectively been done by CPPI, as opposed to established capacity within the SCEP's operational structure. Therefore, there is a need in the long-term to increase SCEP internal capacity to sustain the initiative and dedicate necessary resources to sustain regulatory oversight. A more immediate concern in this area relates to ensuring that the delegated regulatory authorities at the regional and local level are fully conversant with their key role in monitoring and verification.

b) Project management:

CPPI represents one of the most experienced project implementation organizations in the Russian Federation. It gained extensive experience on other Bank projects and will employ some implementation capacity within the ODS project implementation unit that is managing the GEF Consumption Phase-out project. Subject to availability of technical support capacity through the monitoring and verification consultant, the relatively simple design of the Special Initiative Project in terms of compensation and disbursement conditions should facilitate Special Initiative Project management. The Project Implementation Plan (PIP) will include a detailed staffing plan and budget that is considered adequate to meet the needs of the Special Initiative Project. Supplementary short-term consulting capacity is also provided for in the Special Initiative Project's technical assistance component. A caution is also expressed relative to the need for efficient procurement support in getting the monitoring and verification consulting contract in place by the target grant effectiveness date. With respect to the small but critical purchases that support project implementation, these will be included within the scope of the monitoring and verification consulting contract to facilitate coordination of technical specifications and Bank tendering procedures. Annex 7 contains the most recent Bank PIU Financial Management Capacity Assessment for CPPI.

5. Social:

The social assessment of the Special Initiative Project was primarily concerned with the impact of production closure on employment. For all of the participating enterprises, the number of employees directly affected by the Special Initiative Project will be a small percentage of their overall workforces (1% to 5%). Recognizing that a number of the production facilities are being converted to the production of other products and several enterprises have expanding production in other areas, the impacts on even these employees are found to be minimal. Of the 849 employees identified as currently being involved in ODS production activities across all seven enterprises, only five people at JSC "Altaichimprom" are anticipated to be left without employment, with the remainder continuing at converted production facilities or being

absorbed in the general work force. In the case of the five redundancies, these will be compensated in accordance with Russian legislation. In this regard, the social assessment highlighted the need to ensure that this particular enterprise meets its obligations in this area. Specific conditionality terms have been included in the closure plan of this enterprise to ensure these obligations are met. All enterprises indicated that they informed affected workers of the closure plans and of the overall status of the Special Initiative Project.

The one potential policy issue identified under the social assessment in association with the Special Initiative Project relates to the possible cultural property impacts of site contamination at the GIPKh near the center of St. Petersburg where small scale ODS production facilities have already been closed. However, it is pointed out that the relative contribution of the ODS production facility to this contamination would have been minor. Furthermore, the actual closure plan activities themselves have a positive rather than negative effect relative to any issues related to cultural property in the area around this site. Counterparts have indicated that further evaluation of this issue will be undertaken prior to effectiveness and it will be flagged for monitoring during Special Initiative Project implementation.

In general, the Special Initiative Project will potentially have a number of positive social impacts. At the local and enterprise level it will provide needed investment resources for modernization and new product development, which in turn should enhance the enterprise's longer-term prospects and the employment opportunities it offers. This could be particularly important in the three smaller communities (Yarovoeye, Kirovo-Chepetsk, Redkino) in which the participating enterprises represent the major source of employment.

6. *Environmental assessment:* Environmental Category [] A [X] B [] C

The environmental assessment of the Special Initiative Project has been undertaken on the basis that its scope is confined to those impacts that are directly associated with closure activities and would be considered to be incremental as a consequence of Special Initiative Project implementation. Closure plan-specific Environmental Assessments (EA) have been prepared by CPPI and enterprises as part of the Russian environmental approval process that has been undertaken for each enterprise-specific closure plan. A detailed Environmental Management Plan (EMP) based on this EA has been prepared for each enterprise and is incorporated as a component of the formal closure plan agreed to which will be a legally binding part of the PCCPA's.

In terms of global environmental impacts, the environmental assessment is clearly positive given that the Special Initiative Project will eliminate approximately 12,800 MT of ODS (13,130 ODP) or 11% of global annual production based on 1998 production. In terms of latent production capacity, approximately 140,000 MT or 47% of global annual production capacity will be eliminated. The elimination of this production also removes a significant source of high GWP emissions. Counterbalancing this positive impact to a small degree is the conversion of one facility to HCFC-22, which is a transitional ODS with a low ODP. Two of the other conversions (JSC "Kaustic" and JSC "Redkino Pilot Plant") involve new production of relatively high GWP substances (HFC-134a, HFC-23). However, the anticipated low production levels of these materials and in the case of HFC-134a, lower GWP than the CFC-12 it will replace, make the negative impact small compared to the positive impacts gained from eliminating ODS production.

The obvious environmental impacts directly associated with closure activities are related to the disposition of waste material recovered during the dismantling and/or conversion of production facilities. These are principally small quantities of solid or liquid waste (under 5 MT and 300 m³ per facility) of moderate hazard potential. They include such things as absorbent material and contaminated wastewater (including spent catalyst) from cleaning operations or scrubber drainage. The solid wastes are considered Class 3 and 4 hazardous waste under Russian regulations and are suitable for disposal in permitted landfills that all enterprises either operate themselves or have access to. Similarly, the wastewater is directed to in-plant

pre-treatment facilities with subsequent treatment in permitted primary or biological treatment facilities of their own or adjacent enterprises. In all cases, these wastes represent a small portion of the overall annual generation of the facilities and are essentially the same as would be regularly generated by the ODS production operations during routine maintenance on an ongoing basis. In assessing the receiving facilities, it was concluded that, while not up to standards for comparable facilities in Western Europe or North America, they are better in terms of design and environmental monitoring than would be expected of Russian industrial waste management facilities generally. With the exception of the clean-up of the closed GIPKh facilities, none of the production facilities used asbestos insulation. However, asbestos contaminated material was associated with the derelict GIPKh facility in St. Petersburg and the EMP specifically calls for containment prior to land disposal and respiratory protection for those undertaking this work.

The principal environmental concern associated with closure activities relates to the disposal of carbontetrachloride (CTC) that remains at the JSC “Redkino Pilot Plant” (30 MT) and JSC “Altaichimprom” (50 MT) sites. This material will have to be either transferred to another enterprise permitted to use it as a feedstock or incinerated in a suitably qualified high temperature facility. In the case of JSC “Redkino”, the EMP calls for the transfer of the CTC to a permitted reprocessing facility and its subsequent re-sale as a feedstock. In the case of JSC “Altaichimprom”, arrangements have been made to transfer the material to one of the currently operating CFC-11/12 producers for use in producing these ODS materials prior to July 1, 2000. The back-up alternative in both cases is incineration at JSC “Halogen” which operates a high temperature incineration facility permitted to take this material. The closure plans and EMP provisions in them call for detailed tracking of the disposition of this material. In this regard, the careful monitoring of the material currently stored at JSC “Redkino Pilot Plant” is identified for particular emphasis during supervision, given the uncertainty about its disposition, and reservations on the enterprise’s understanding of its significance. At appraisal, CPPI and local authorities initiated a monitoring program specific to this material.

While the scope of the EA undertaken for the Special Initiative Project is confined to the direct incremental impacts resulting from closure activities, the EA documents developed by the CPPI and enterprises have also addressed the overall environmental compliance status of the enterprises. In all but one case, the participating enterprises are current in environmental fee payments. With relatively minor exceptions, all enterprises are in compliance with the local discharge standards established for them by SCEP. Having said that, it is also recognized that all of these operations have, and continue to involve the use and production of hazardous materials. As would be the case at such facilities anywhere, it is to be anticipated that site contamination exists at all enterprises and that this has potential to impact the environment, particularly ground and surface water. In the course of EA preparation, three specific potential situations where particular concerns might exist were identified. These are associated with CTC co-product storage facilities at JSC “Redkino Pilot Plant”, the evaporation ponds historically used for treatment and disposal of fluoride contaminated wastewater at JSC “Altaichimprom”, and existing contamination on the GIPKh St. Petersburg site. In all three cases, the Environmental Management Plan includes supplementary provisions formalizing the enterprise’s undertakings to conduct site assessment and develop a remediation plan for consideration of local regulatory authorities. However, the implementation of these site assessments and subsequent remediation are outside the scope of this Special Initiative Project and no funding is available under the Special Initiative to support such activities.

7. Participatory approach [key stakeholders, how involved, and what they have influenced; if participatory approach not used, describe why not applicable]:

a) Primary beneficiaries and other affected groups:

The primary beneficiary of the Special Initiative Project is the international community as a whole, through the elimination of a major source of ODS production and production capacity. As a result, the Special

Initiative Project is being undertaken with a high level of donor support. Donors participated in the conceptual project design through reviews of the Special Initiative Prospectus and provided extensive input to both the Bank and GoR at the donors roundtable meeting and in the drafting of the final Prospectus and meeting protocol. They are regularly kept informed through the issuing of Special Initiative Project update bulletins and reports by the Bank, and through representation on the SITRG. The broader international community has been kept informed through the Bank's reporting and submissions to the GEF, notably those related to the third tranche of the GEF Consumption Phase-out Project in May 1999. Direct input from Council members was solicited and received by the Bank and GoR for inclusion in the final Special Initiative Project preparation stages.

The other principal stakeholders and potential beneficiaries associated with the Special Initiative Project are the participating enterprise employees and the communities hosting these enterprises. All enterprises have maintained regular communication with affected employees and in most cases have had programs to inform the local communities through the media, local officials and local environmental groups. The level of consultation with the communities at large has generally been modest and is specifically highlighted in the closure plans as having to be strengthened during Special Initiative Project implementation.

b) Other key stakeholders:

As previously noted, the various affected agencies within the GoR represent key stakeholders. The successful operation of the IAC demonstrates the high level of consultation with them, something that has been critical in developing the policy consensus that has been and will continue to be fundamental to the Special Initiative Project's success.

Other countries in the FSU are also stakeholders in the Special Initiative Project. These countries, particularly Belarus and Ukraine, remain dependent on ODS produced in Russia. After March 1, 2000, they will lose their access to these supplies, which has been permitted by the Parties to the Montreal Protocol up until this time.

While both these countries are implementing GEF funded consumption phase-out projects, residual demand, particularly related to the use of CFC-12 for refrigeration servicing, will continue as it does in Russia. The GoR has kept the governments of both countries informed about the Special Initiative Project and its implications, as has the Bank in its supervision role related to the specific GEF projects in these countries. While Belarus has substantively completed phase-out in the major consumption sectors and is actively working on management of refrigeration servicing issues, this is not the case in Ukraine. Here, delays in implementation of the GEF project will potentially result in economic losses due to the absence of ODS from Russia.

The final stakeholder group are national and international environmental NGO's which have an active interest in the ODS issue. CPPI has maintained an active information exchange with the principal national environmental groups while the Bank and GEF have maintained contact with international NGOs. In general, national groups are supportive of the Special Initiative Project and its objectives. On the other hand, one major international NGO, Greenpeace International, has voiced objections to the Special Initiative Project on general grounds related to the selection of implementing agencies and the fact that various transitional ODS and high GWP substitute materials may be involved. CPPI however, clarified that the Special Initiative project will overall result in a reduction of ozone depleting potential in Russia, and that the Government is committed on a voluntary basis, to comply with the terms of the Copenhagen Amendment respecting limitation of transitional substance (HCFC's) production.

F: Sustainability and Risks

1. Sustainability:

The Special Initiative Project's sustainability is based on two key components. The first is the high level of government commitment that has been demonstrated and which is supported by the almost unique level of consensus on a highly sensitive initiative in political terms. This commitment is further underpinned by the Government obligation of a full grant repayment in the event that permanent production closure does not take place or production of banned ODS substances is resumed in any form. The second key component of sustainability is the effectiveness of monitoring and verification applied to the closure of production facilities. This, in turn, is dependent on the ability of both international and local resources responsible for this monitoring to have full access to facilities and information as has been provided for in the closure plans.

2. Critical Risks

The major risk for this Special Initiative Project is delays in the approval of the Government Resolution authorizing a signing of the Special Initiative and appointing government agencies to execute the Grant Agreement (GA), and delays in the final approval of SI project documents (Project Implementation Agreement and PCCPA) because of complicated Government internal clearance procedures. Other difficult issues are the tax exemption of compensation payments, disbursement mechanisms suitable to all parties, and the enterprises' desire to receive payments in foreign exchange. Discussions at appraisal indicate that all of these issues are resolvable through the application of a recent law concerning technical assistance funding. Under this law, all SI project activities and particularly compensation payments will have tax-free status. Indirect disbursement mechanism will be from the Bank to the government through an agreed Agency bank, and from the bank to the enterprises. All of these transfers will be fully subject to audit reviews.

Once agreement has been reached with the Government, the implementation risks are modest. These are elaborated further in the attached table.

<u>Risk</u>	<u>Risk Rating</u>	<u>Risk Minimization Measure</u>
Government does not effectively enforce ban on ODS production	M	Government has strong incentive not to violate grant agreement because of its repayment obligation of the entire grant
Enterprises resume illegal ODS production	M	Enterprises face stiff penalties (repayment of grant) and regulatory measures, including forced closure of their production facilities, if they resume production. Regular monitoring up to 5 years after closure makes detection of violations very likely. Furthermore, ODS represents a very small share of the business of most enterprises and the domestic demand is expected to decline rapidly as ODS consumption is being phased out.
Enterprises do not fully implement their closure plans	M	Enterprises have a strong incentive to complete the closure because 70% of the total compensation is held back until the final enterprise has completed closure. Furthermore, detailed closure plans have been prepared and thoroughly discussed with each enterprise. And regular monitoring during implementation makes detection of deviations from the plan very likely.
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

3. Possible Controversial Aspects:

The following potentially controversial issues associated with the Special Initiative Project can be identified:

- a) Apprehension of Continued Illegal Production: It can be anticipated that despite the best efforts of all governments, including the Russian Federation, there will continue to be an illegal trade in ODS.
- b) General Pollution Impacts of Beneficiary Enterprises: Sometime in the future, one or more of the participating enterprises may come under third part scrutiny with regards to more general pollution impacts and/or health damages. It should be noted that such scrutiny could occur with respect to any major facility in the industrial sector in Russia, as well as in any other NIS country.

- c) Conversion to Transitional or High GWP Substances: As previously noted, three of the participating enterprises intend to convert their ODS production facilities to either transitional or high GWP ODS substitutes. Additionally, two of the enterprises are already producers of transitional substances. Criticism from NGO's and potentially some national governments for allowing these conversions within the Special Initiative Project scope and not extending its scope to elimination of transitional substances may arise. In this regard, it should be pointed out that both the donors and the GEF have agreed such conversions or other production would not be made more restrictive than the bounds of international conventions. Russia for its part has agreed to limit its already modest transitional substance production as governed by the Copenhagen Amendment of the MP. It should also be noted that where an ODS production closure involves conversion to a transitional substance, the enterprises have been informed that they will be ineligible for any future international funding that may exist for its phase-out in the future.

G: Main Grant Conditions

1. Effectiveness Conditions:

- Signed PCCPAs with all Seven Enterprises which have received the Bank's "no objection"
- Signed Project Implementation Agreement (PIA) between SCEP, CPPI, and Key Government Agencies acceptable to the Bank
- Government Resolutions banning ODS Production and Import/Export in force
- Preliminary Russian Environmental Approvals for all Closure Plans
- Monitoring and Verification Consultant Contract in place
- Confirmation of tax free status of enterprise compensation payments
- Legal opinion

H. Readiness for Implementation

[X] The engineering design documents for the first year's activities are complete and ready for the start of Special Initiative Project implementation. [] Not applicable.

[X] The procurement documents for the first year's activities are complete and ready for the start of Special Initiative Project implementation.

[X] The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.

[X] Signed Closure Plans have been attached to PCCPAs and have received final SITRG clearance

[X] The following items are lacking and are discussed under grant conditions (Section G):

- Bank "no objection" for the signed closure plans.
- Government adopted Project Implementation Agreement (PIA) between SCEP, CPPI, and supervising Government Agencies.
- Bank "no objection" for Monitoring and Verification Consultant Contract.

I. Compliance with Bank Policies

[X] This Special Initiative Project complies with all applicable Bank policies.

[] [The following exceptions to Bank policies are recommended for approval: The Special Initiative Project complies with all other applicable Bank policies.]

[signature]

Task Team Leader/Task Manager: Vladimir Tsirkunov

[signature]

Sector Manager/Director: John Hayward, Acting

[signature]

Country Manager/Director: Kevin Cleaver

Annex 1

Project Design Summary

Russian Federation: Special Initiative for ODS Production Closure

Narrative Summary	Key Performance Indicators	Monitoring and Evaluation	Critical Assumptions
<p>a. Sector-related CAS Goal: Support Environmentally Sustainable Development</p> <p>b. GEF Operational Program: Complete Phase-out of ODS Consumption and Production</p>	<p>Compliance with International Environmental Agreement (Montreal Protocol)</p>	<p>Country ODS Phase-out Regular Reports to Montreal Protocol Secretariat</p>	<p>(Goal to Bank Mission)</p> <p>Sustained government policy commitment respecting Country Program Implementation</p>
<p>Special Initiative Project Development Objective: Permanent closure of ODS production capability in Russia</p>	<p>a) Verifiable elimination of production capability</p> <p>b) Orderly transition of domestic ODS use to appropriate substitutes.</p> <p>c) Compliance with bans on ODS import and export</p> <p>d) Commercial production of alternative products and ODS substitutes, and</p> <p>e) Absence of any resumption of ODS production</p>	<p>Monitoring and Verification Reports under Special Initiative Project</p> <p>Country ODS Phase-out Regular Reports to Montreal Protocol Secretariat</p>	<p>(Objective to Goal)</p> <p>Sustained Government commitment and capacity to enforce the ban on ODS production and on imports and exports.</p> <p>Sustained enterprise commitment and compliance with the terms of PCCPA's</p>
<p>Outputs:</p> <p>Permanent Production Closure in all seven ODS producing enterprises implemented and verified.</p> <p>Institutional Capacity to ensure monitor and enforce permanent closure has been created.</p>	<p>Full implementation of each enterprise closure plans has been verified</p> <p>Full implementation of the proposed TA program</p>	<p>SITRG, Bank, and Government Verification Reports</p> <p>Special Initiative Project Supervision Reports</p>	<p>(Outputs to Objective)</p> <p>Government effectively enforces the ban on new ODS production</p> <p>Enterprises do not illegally resume ODS production</p>

Special Initiative Project Components/Sub-components: (see Annex 2 for Special Initiative Project description)	Inputs: (budget for each component)		(Components to Outputs)
1. Compensation Payments ¹ (US\$24.7m) 1(a) JSC “Altaichimprom (US\$1,700,000)	<ul style="list-style-type: none"> • Permanent removal of CFC-11/12 production capacity • Appropriate disposition of residual CTC feedstock • Appropriate disposal of closure wastes • Legislated compensation to redundant workers 	<ul style="list-style-type: none"> • Inspection of closed facilities, monitoring of stored equipment • Tracking of CTC disposition • Monitoring of waste disposal practice upon closure • Access to enterprise employment record. 	<ul style="list-style-type: none"> • Effectiveness of monitoring and verification • Availability of legal use for CTC • Availability of qualified disposal facilities and access to disposal facilities and records for verification • Enterprise willingness to comply with legislated compensation requirements
1(b) GIPKh (US\$900,000)	<ul style="list-style-type: none"> • Appropriate use, storage and/or scrapping of monitored equipment • Dismantled production facility clean-up • Absence of ODS production at new pilot facility • Legal CFC recycling 	<ul style="list-style-type: none"> • Monitoring of reused, stored and/or scrapped equipment • Site inspection and verification of appropriate disposal of wastes • Monitoring of pilot plant operations • Monitoring of recycling operations 	<ul style="list-style-type: none"> • Access for monitoring and verification of closed facilities and retained equipment • Commitment of enterprise to implement and authorities to enforce • Effectiveness of monitoring and verification • Notification commitment and effectiveness of monitoring and verification

¹ The enterprise specific Production Closure Compensation Payment amounts identified are based on information provided by the GoR relating to its decisions on the allocation of the compensation payments among the ODS Producing Enterprises, including the resolution of the IAC and review of draft PCCPAs. These amounts are considered indicative and do not alter the sole responsibility under this Project of the GoR to determine the allocation of the overall compensation payment component in the project.

<p>1(c) JSC “Halogen” (US\$6,568,000)</p>	<ul style="list-style-type: none"> • Permanent removal of CFC-11/12 and halon 2402 production capacity • Absence of CFC11/12 production at HCFC-22 production facilities • Effective legal operation of ODS security bank • Appropriate disposal of closure wastes 	<ul style="list-style-type: none"> • Inspection of closed facilities, monitoring of stored equipment • Monitoring of production records, feedstock use and product analysis • Monitoring of inventory transaction records • Monitoring of waste disposal practice upon closure 	<p>Access for monitoring and verification of closed facilities and retained equipment</p> <ul style="list-style-type: none"> • Access for monitoring, verification sampling, and enterprise commitment • Accuracy of and access to inventory records and samples for monitoring and verification • Availability of qualified disposal facilities and access to disposal facilities and records for verification
<p>1(d) JSC “Kaustik” (US\$5,989,000)</p>	<ul style="list-style-type: none"> • Permanent removal of CFC-11/12 production capacity • Effective legal operation of ODS security bank • Appropriate disposal of closure wastes 	<ul style="list-style-type: none"> • Inspection of closed facilities, monitoring of stored equipment • Monitoring of inventory transaction records • Monitoring of waste disposal practice upon closure 	<ul style="list-style-type: none"> • Access for monitoring and verification of converted plant operation for monitoring and verification • Accuracy of and access to inventory records and samples for monitoring and verification • Access to disposal facilities and records for monitoring and verification

<p>1(e) JSC “Chimprom” (US\$6,278,000)</p>	<ul style="list-style-type: none"> • Absence of any CFC11/12 production at facilities converted to HCFC-22 production • Permanent removal of CFC-113 production capacity • Effective legal operation of ODS security bank • Appropriate disposal of closure wastes • Permanent cessation of CFC-113 production for off-site sale 	<ul style="list-style-type: none"> • Monitoring of production records, feedstock use and product analysis • Inspection of closed facilities, monitoring of stored equipment • Monitoring of inventory transaction records • Monitoring of waste disposal practice upon closure • Inspection of continuing operations and monitoring of production and feedstock use 	<ul style="list-style-type: none"> • Access to converted plant operations and records for monitoring and verification and enterprise commitment • Access for monitoring and verification of closed facilities and retained equipment • Accuracy of and access to inventory records and samples for monitoring and verification • Access to disposal facilities and records for monitoring and verification • Enterprise commitment, controlling ministry cooperation (MinAtom) and full access to continuing production facilities for monitoring and verification
<p>1(f) JSC “Kirovo-Chepetsk” (US\$2,974,000)</p>	<ul style="list-style-type: none"> • Absence of CFC11/12 production at HCFC-22 production facilities • Permanent removal of halon 2402 production capacity • Effective legal operation of ODS security bank • Appropriate disposal of closure wastes 	<ul style="list-style-type: none"> • Monitoring of production records, feedstock use and product analysis • Inspection of closed facilities, monitoring of stored equipment • Monitoring of inventory transaction records • Monitoring of waste disposal practice upon closure 	<ul style="list-style-type: none"> • Access for monitoring, verification sampling, and enterprise commitment • Access for monitoring and verification of closed facilities and retained equipment • Accuracy of and access to inventory records and samples for monitoring and verification • Access to disposal facilities and records for monitoring and verification

<p>1(g) JSC “Redkinsky Pilot Plant” (US\$200,000)</p> <p>.</p>	<ul style="list-style-type: none"> • Absence of any CFC-13 production at facilities converted to HFC-23 production • Appropriate disposition of residual CTC co-product • Appropriate disposal of closure wastes 	<ul style="list-style-type: none"> • Monitoring of production records, feedstock use and product analysis • Tracking of CTC disposition • Monitoring of waste disposal practice upon closure 	<ul style="list-style-type: none"> • Absence of CFC-12 feedstock availability and access to converted plant operations and records for monitoring and verification • Availability of a qualified legal out for CTC reprocessing and end use or qualified incineration facility • Access to disposal facilities and records for monitoring and verification
<p>2. Enforcement Institutional Strengthening (US\$0.3)</p>	<ul style="list-style-type: none"> • Comprehensive and well defined Terms of Reference for assignments • Local and national familiarity with and long-term effectiveness in monitoring enterprise closure. • Effective control of import/export ban and security bank operation 	<ul style="list-style-type: none"> • Bank supervision • International reporting and monitoring. 	<ul style="list-style-type: none"> • Interest and willingness of local regulatory authorities. • Provision of counterpar resources. • Long term enterprise cooperation.

<p>3. Monitoring/Verification (US\$0.6)</p>	<ul style="list-style-type: none"> • M/V consultant operational upon effectiveness (Jan. 1/2000) • Qualifications and creditability of the M/V consultant. • Qualifications and familiarization of local regulatory authorities. • Timely availability of M/V equipment and supplies (July 1, 2000) • Comprehensiveness and timeliness of Closure Completion reports • Comprehensive and well defined Terms of Reference for assignments 	<ul style="list-style-type: none"> • Bank and SITRG review of TOR and procurement documentation • Application of Bank QCBS procurement procedures • Provision for support in M/V consultant contract • Provision procurement support in M/V consultant contract • Bank /CPPI supervision • Bank review of TOR's and results. 	<ul style="list-style-type: none"> • Availability of qualified international consultant: willing to undertake the work. • QCBS procedures can be completed in the allocated time. • Readiness of local regulatory authorities to assume M/V responsibility • Feasibility of applying Bank procedures to the required equipment and supplies. • Enterprise and local authority cooperation in information supply
<p>4. Enterprise Technology Transfer/EMS Development (US\$0.2)</p>	<ul style="list-style-type: none"> • Demonstrated interest by enterprises in EMS development. • Identified technology transfer opportunities • Development of environmental performance improvement initiatives • Linkages with SEAP's and NPAF 	<ul style="list-style-type: none"> • Long term viability of enterprises. • Development of low GWP substitute and other alternative product lines • Environmental investment proposals received by NPAF 	<ul style="list-style-type: none"> • Interest of enterprises in alternative technology and EMS development • Feasibility of integrated NPAF and SEAP initiatives with Special Initiative Project participating enterprises.

<p>5. Counterpart Incremental Operating Costs for (Supervision (US\$0.4)</p> <p>Global Components: N/A</p>	<ul style="list-style-type: none"> • Coordination of timely effectiveness conditionality compliance • Effective procurement support for contracting of M/V and TA resources • Timely procurement and supply of Monitoring and Verification equipment and supplies (LOI April 2000, Delivery July 1, 2000) • Completion of Russian environmental approvals • Effective public consultation and participation programs 	<ul style="list-style-type: none"> • Meeting Jan. 1, 2000 effectiveness target • M/V consultant in place Jan. 1, 2000 • TA requirements tendered by Mar. 1, 2000 • Delivery of all equipment to M/V consultant and regulatory authorities. • Monitoring of status of local approvals by the M/V consultant and Bank • Monitoring of results through closure plan requirements and Bank supervision 	<ul style="list-style-type: none"> • Adequate resources in PIU and support within the government • Availability of sufficient qualified resources in CPPI • Availability of adequate experienced procurement capacity in CPPI • Availability of NPAF expertise in support of the approval process • Acceptance of a participatory approach to Special Initiative Project implementation
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Annex 2

Special Initiative for ODS Production Closure in the Russian Federation Project Description

General Special Initiative Project Description

The Russian Federation retains a latent capacity to produce approximately 140,000 MT/year of ODS in twelve production facilities within seven enterprises located throughout the country. It remains one of the world's largest continuing ODS producers with approximately 12,800 MT or 11% of world production in 1998. However, Russia fully acknowledges its obligation to phase-out both the production and new consumption of ODS in 2000 as agreed to with the Parties to the Montreal Protocol. Since 1996, it has implemented a Country Program, and developed a strengthened institutional framework to control ODS consumption and production as well as imports and exports. It is also implementing the Russian Federation ODS Consumption Phase-out Project (GEF Project) utilizing up to US\$60 million in funding from the GEF which is actively financing eligible consumption phase-out investments in the aerosol, refrigeration, non-insulating foam, and solvent sectors.

The Special Initiative for ODS Production Closure (Special Initiative) has been designed as a companion Special Initiative Project to the GEF Project^{1,2,3}, such that phase-out of both production and consumption could be coordinated. The Special Initiative provides a grant to the Russian Federation which it intends to use it to compensate seven ODS producing enterprises for the permanent closure of all production facilities capable of producing Annex A and B ODS for end (emissive) use. This grant also provides resources to support additional technical assistance, monitoring and verification of closure, and Special Initiative Project supervision. It is funded through a combination of direct donor country contributions⁴ and an allocation of US\$8.5 million from the GEF through the third tranche of the GEF Project, all administered by the Bank through a Special Initiative Project-specific trust fund. Direct donor funding for the Special Initiative was confirmed in October 1998 at a donors roundtable meeting held in Moscow, the results of which are documented in a detailed Project Prospectus⁵ and a meeting protocol⁶. The GEF contribution was approved at the May 1999 GEF Council meeting as part of the GEF Project's third tranche. These funds, less US\$800,000 allocated for Bank supervision costs, will be disbursed under the terms of a Grant Agreement between the Bank and the Government of the Russian Federation (GoR). The grant amount will be US\$26.2 million of which US\$24.7 million is for compensation payments to be allocated among the seven participating enterprises and paid by the GoR. The compensation payments will be disbursed on the basis of 30% of each enterprise's allocation being paid upon the signing of Production Closure Compensation Payment Agreements (PCCPA's) by all participating enterprises with the GoR, in a form acceptable to the Bank. The remaining 70% will be disbursed upon verification of the permanent closure of all production facilities, again to the satisfaction of the Bank. The compensation funding allocation has been established by the GoR through the Inter-Agency Commission on Protection of the Ozone Layer (IAC). The level of compensation provided to each enterprise has been determined by the GoR, based on historical and current production levels (i.e. contribution to Special Initiative Project outcomes), as well as industrial policy priorities,

¹ *Global Environment Facility, Russian Federation Ozone Depleting Substances Phase-out Project, Project Document*, The World Bank, Report No. 15326-RU, May 1996.

² *Global Environment Facility, Russian Federation Ozone Depleting Substances Phase-Out Project, Project Document: Second Tranche*, The World Bank, Report No. 17391-RU, February 1998.

³ *Global Environment Facility, Russian Federation Ozone Depleting Substances Phase-Out Project, Project Document: Project Progress Report and Third Tranche Submission*, The World Bank, Report No. 18973-RU, May 1999.

⁴ Austria – US\$0.2m, Denmark – US\$2.0m, Finland – US\$1.0 m, Germany – US\$1.0 million, Italy – US\$0.4m, Japan – US\$2.0m, Norway – US\$2.0m, Sweden – US\$1.0, United Kingdom – US\$3.4m, United States – US\$6.0m. These amounts include the \$800,000 contribution for World Bank Administrative Costs.

⁵ *Prospectus: Special Initiative for ODS Production Closure in the Russian Federation, State Committee for Environmental Protection*, October 1998.

⁶ *Special Initiative Donors Roundtable Meeting Protocol*, Moscow, October 1998.

consistent with strengthening and modernization of industrial capacity in the sector.

In support of the Special Initiative, the GoR has implemented a government resolution banning ODS production after July 1, 2000 and another resolution prohibiting the import and export of ODS after March 1, 2000. Both government resolutions being in force will be conditions of grant effectiveness. Additionally, the GoR has agreed to assume a repayment obligation for the full grant amount in the event that any participating enterprise fails to meet its individual closure obligations and/or in the event that there is any resumption of ODS materials covered by the Special Initiative by either the participating enterprises or anyone else in the future.

The technical basis for implementing the Special Initiative is the detailed closure plans, unique to each participating enterprise. These closure plans will form part of the respective enterprise PCCPA's as a legally binding commitment. The proposed closure plans have been developed by the enterprises with the support of an independent monitoring and verification consultant⁷, inclusive of monitoring and verification procedures and an environmental management plan (EMP), specific to the closure actions undertaken. They have been subject to review and clearance for appraisal⁸ by an international group of experts, known as the Special Initiative Technical Review Group (SITRG), which has been established and funded by the World Bank. It operates under the chairmanship of the STAP/OORG⁹ Production Sector Advisor and consists of an alternate chair and three members selected by donors. The SITRG have also reviewed and provided preliminary comments on the Bank's technical appraisal reports applicable to each closure plan and the final agreed to closure plans as they are to appear in the PCCPA's prior to grant effectiveness. The SITRG's clearance will also be required for the Closure Verification Reports prepared by the monitoring and verification consultant. The acceptance of these documents for all enterprises by the Bank will be the basis for final compensation disbursements to any enterprise. In support of Special Initiative Project processing, the CPPI has prepared an Environmental Assessment (EA) for each enterprise closure plan as the basis for the EMP contained within the closure plans and for the initiation of the Russian environmental approval process. CPPI has undertaken a Social Assessment (SA) for the Special Initiative Project.

The Special Initiative Project scope makes provision for financial support of closure monitoring and verification, both by the GoR and the Bank, on behalf of donors. This will be accomplished by funding the contracting of the independent monitoring and verification consultant to support CPPI and prepare the Closure Verification Reports. It also provides for enforcement related institutional strengthening, training, the supply of monitoring equipment for the monitoring and verification consultant, and the local SCEP authorities in undertaking their obligations for monitoring and enforcement of the closure in accordance with the above Government resolution. The Bank also retains a long-term obligation for five years after final disbursement is made to monitor closure through its supervision activities. Finally, modest technical assistance for enterprises in pursuing ODS alternative technologies and the development of environmental management systems is included, along with reimbursement to CPPI of incremental operating costs associated with supervision of the Special Initiative Project.

In the following Special Initiative Project component descriptions, each of the closure plans and the results of their technical appraisal are summarized along with descriptions applicable to enforcement and institutional strengthening, monitoring and verification consultant, enterprise technology transfer and environmental management system development, monitoring and verification equipment and supplies, and counterpart incremental operating costs.

⁷ *Plans for ODS Production Closure in the Russian Federation*, Arthur D. Little International Inc., May 1999 (Confidential).

⁸ *Review Comments of SITRG on "Plans for ODS Production Closure in the Russian Federation"*, SITRG, June 1999.

⁹ The Scientific and Technical Assessment Panel (STAP) process is used to provide independent review of GEF projects. The Ozone Operations Resource Group (OORG) is an internationally recognized group of sector experts which undertakes technical reviews of Montreal Protocol Multilateral Fund (MPMF) ODS phase-out projects implemented by the World Bank and fulfills the STAP role for GEF ODS projects.

Project Component Descriptions:

Special Initiative Project Component 1: Enterprise Compensation (US\$24.7 million)

The following table identifies the seven producing enterprises, the ODS produced, production capacity, current production, closure approach, and related production capability. This is followed by a description of each enterprise and its closure plan.

Participating Enterprise	ODS	Production Capacity (MT/yr.)	1998 Production (MT)	Closure Approach	Related Production Facilities
JSC Altaichimprom	CFC-11/12	30,000	0	Facility dismantling	<ul style="list-style-type: none"> • Consumer aerosol filling operation.
GIPKh	CFC-115	30	0	Facility dismantling	<ul style="list-style-type: none"> • Operational halon 2402 reclaim and recycling • Inoperative CFC-11/12 reclaim and recycling • HFC –134a pilot and semi-plant under development
	Halon 1211	20	0	Facility dismantling	
	Halon 1301	80	0	Facility dismantling	
JSC Halogen	CFC-11/12	30,000	3,482	Facility dismantling	<ul style="list-style-type: none"> • Operational HCFC-22 plant for PTFE feedstock and limited end use sale. • CFC-11/12 security banking operation • Consumer aerosol filling operation (GEF project Third Tranche).
	Halon 2402	1,400	80	Facility dismantling	
JSC Kaustik	CFC-11/12	30,000	2,870	Conversion to HFC-152a and HFC-134a	<ul style="list-style-type: none"> • Potential security banking of CFC-11/12
JSC Chimprom	CFC-11/12	24,000	5,974	Conversion to HCFC-22 production	<ul style="list-style-type: none"> • Potential security banking of CFC-11/12 and CFC-113 • Consumer aerosol filling operation (GEF project Second Tranche).
	CFC-113	18,000	150	Facility dismantling	
JSC Kirovo-Chepetsk	CFC-113	5,800	245	Reduction in capacity and dismantling of commercial sales packaging	<ul style="list-style-type: none"> • Operational HCFC-22 plant for PTFE feedstock and limited end use sale.
	Halon 2402	1,030	0	Facility dismantling	
JSC Redkinsky Pilot Plant	CFC-13	200	12	Conversion to HFC-23	<ul style="list-style-type: none"> • None

- 1(a) **JSC “Altaichimprom”:** JSC “Altaichimprom” is located in the town of Yarovoye in the northwestern part of the Altai region in South Central Siberia, near the border with Kazakhstan. In addition to production capacity for CFC-11/12, it is a relatively large integrated chemical complex producing a variety of other products, including bromo-organic compounds, paint and varnish materials, epoxy resins, silicone based compounds, disinfectants, detergents, insecticides, repellants, benzoic acid and herbicides. Its ownership

is split between the public and private sector with the state retaining a controlling interest. It was one of the largest producers of CFC-11/12 in the Former Soviet Union (FSU) with 30,000MT of capacity. However, ODS production has declined dramatically since 1990 and the facility was mothballed in 1997, although it remains operable, with some re-habitation. The CFC-11/12 production technology employed involves liquid phase fluorination of carbon tetrachloride (CTC) with HF using an antimony-based catalyst and with HCl as a by-product. All feedstocks are purchased, rather than produced on site. The closure plan proposed is based on complete closure and effective dismantling of production facilities. This involves the disabling, removal, sealing and monitored storage of all four synthesis reactors, removal of the CTC and catalyst inventories from the site, and disabling of the CFC-11/12 process control system. With respect to timing, the enterprise intends to initiate these activities in June 2000 and to have them complete by September 2000.

The technical risks involved in this closure plan are minimal in that all production capability is being fully dismantled and residual equipment will be sealed and stored for ready monitoring and verification. Small quantities of moderately hazardous waste, principally spent antimony-based catalyst, will be generated during closure. This can be readily neutralized for antimony recovery by the supplier or disposal in an off-site licensed landfill facility. The only significant environmental issue is the disposition of approximately 50 MT of retained CTC feedstock. This will be sold as a feedstock for a legal use (CFC-11/12 production at JSC Halogen prior to July 1, 2000). This disposition will be monitored and subject to the Bank's approval. In terms of social impact, this will be limited to the loss of five jobs with the affected people being either absorbed into other operations or laid off in accordance with applicable Russian legislation. It should be noted that the Social Assessment highlights monitoring of employment termination practices at this enterprise for specific monitoring.

- 1(b) Research Institute "Applied Chemistry" (GIPKh): GIPKh is located in St. Petersburg and was one of the main research and development organizations serving the industrial chemical sector in the FSU. It was the principal developer of ODS production technology for the FSU and continues to play a similar role on a commercial basis, in relation to ODS substitute technology. It is state owned and operates under the supervision of the Ministry of Science and Technology. Historically, GIPKh also operated pilot plant scale production facilities for various specialized ODS. As such, it was the country's only producer of CFC-115, halon 1211 and halon 1301, having facilities for 30 MT/year, 20 Mt/year and 80 Mt/year of these materials respectively. However, these facilities were shut down in 1997 and have been largely dismantled since that time. While not covered by the Special Initiative, GIPKh has also operated CFC-11/12 and halon 2402 recycling facilities, the former being shut down, while the latter continues in operation as support for the country's banking and residual requirements for this fire protection chemical. The GoR's justification for providing compensation to GIPKh under the Special Initiative is largely associated with the loss of business opportunities that result from the closure of facilities in other enterprises where it has traditionally provided technical support. The inclusion of GIPKh as a compensation recipient is supported by the other participating enterprises, recognizing the organization's overall importance to future technological development in the sector. However, a closure plan has also been agreed to in which the dismantling of the historical pilot plant capacity in St. Petersburg will be completed. It also provides for monitoring of a new pilot plant for HFC and HCFC technology under development in nearby Kapitoloovo, in order to offer assurance that no small-scale production of Annex A and Annex B materials occurs. The closure activities are scheduled for completion by June 1, 2000

The physical aspects of completing the dismantling are well defined and essentially involve monitoring of the disposition of residual equipment, either by relocation to storage or other use, or scrapping. Monitoring of operations, inclusive of notification provisions applicable to CFC recycling activities at Kapitoloovo, adds to the assurance that no activities in contravention of the Special Initiative's terms will occur. The principal environmental implications directly associated with the closure plan relate to the clean up of residual chemicals, unusable products of closed production, and asbestos based insulation

material inside the pilot plant building housing GIPKh's abandoned St. Petersburg site. While not a direct consequence of the closure activity, the likely contaminated condition of this site as a whole, and its proximity to the Neva River and the central part of the city, have broader implications, including potential land use conflicts with historically and culturally significant development in the city. This has been identified for further evaluation and monitoring. No loss of employment has been associated with the implementation of the closure plan.

- 1(c) JSC "Halogen": JSC "Halogen is located in the city of Perm in the Western Urals. It is a medium size integrated chemical complex having a mixture of private and public ownership with the state retaining a controlling interest. In addition to CFC-11/12 and halon 2402 production capacity, the enterprise is a large producer of hydrogen fluoride (HF) and polytetrafluoroethylene (PTFE). Through related enterprises, it also produces consumer aerosol products and bromine compounds. It is currently one of the major active CFC-11/12 producers in Russia and the only operational producer of halon 2402. Its CFC-11/12 capacity is 30,000 MT/year and 1998 production was 3,482 MT. Halon 2402 capacity is 1,400 MT/year and 1998 production was 80 MT. The enterprise also produces HCFC-22, primarily for PTFE feedstock but is also one of the country's two commercial suppliers of this transitional substance. The CFC-11/12 production technology employed involves liquid phase fluorination of carbon tetrachloride (CTC) with HF using an antimony-based catalyst with HCl as a by-product. HF is produced on-site, while CTC and chlorine are purchased. The closure plan involves the effective dismantling of the production facility, including removal of sealing and storage of synthesis reactors, removal of feedstock supply lines and disabling of control systems. Storage and filling infrastructure is to be retained for the planned ODS security-banking operation. The halon 2402 production technology involves the photochemical bromination of tetrafluoroethylene (TFE) which is produced as a relief gas from PTFE production. The closure plan for the halon 2402 capacity involves disabling of the synthesis reactors and removal of bromine supply and control systems. Closure activities are scheduled to be completed by October 1, 2000.

The physical aspects of closure are generally well defined and can be readily monitored. However, two aspects of this operation are highlighted for particular attention during monitoring. The first is the possibility that CFC-11/12 could be produced in the HCFC-22 facility, something that is technically possible by substituting CTC for chloroform feedstock and altering process parameters. For assurance that this does not occur, the enterprise has provided sampling access to the output from this facility, access to CTC purchase records and production operation records. The second monitoring issue relates to the enterprise's development of a CFC-11/12 banking operation. Again full access to the facility, along with records of inventory and disposition are provided for in the closure plan. No major environmental issues apply to this closure plan beyond the disposition of relatively small volumes of Class 3 and 4 hazardous waste and a small incremental increase in the incineration of relief TFE after halon 2402 production is closed. No employment loss is anticipated to result with affected employees being transferred to other production operations that are expanding.

- 1(d) JSC "Kaustik": JSC "Kaustik" is a large integrated chemical complex located in the heavily industrialized southern Volgograd. The enterprise is privately owned. The enterprise's principal products are caustic soda, liquid chlorine, HCL, calcium chloride, methyl chloride, polyvinyl chloride, and a variety of consumer products. It is currently one of the major active CFC-11/12 producers in Russia with a nominal annual capacity of 30,000 MT, although this is effectively only 15,000 MT due to the fact that one of the two fluid bed reactors is out of service and cannot be returned to service without re-inspection as a pressure unit. Production of CFC-11/12 in 1998 was 2,870 MT. The CFC-11/12 production technology employed is based on direct gas phase chlorination and fluorination of purified methane in fluid bed synthesis reactors in the presence of an aluminum fluoride catalyst. The principal raw materials are purchased HF and chlorine produced on site. The closure plan contemplates the conversion of the CFC-11/12 process facilities for integrated production of HFC-152a and HFC-134a. This involves disabling

and sealing one synthesis reactor, removal of internal and external cyclones from all reactors and substantive dismantling of the methane purification system. Closure activities are expected to be completed in August 2000.

The physical aspects of the closure are well defined and can be readily monitored given the ready access provided by the enterprise to facility records, sampling points, inventories, and stored equipment. A high level of confidence is provided by the dismantling of the methane purification system and the removal of the fluid bed capability in the synthesis reactors. The major monitoring issue associated with this closure is related to the potential operation of a security banking operation, for which the enterprise has capacity for approximately 2,400 MT of material in tanks, commercial containers and rail cars. The enterprise has agreed to its transparent operation of this with full disclosure and tracking of inventories through to the customers. No major environmental issues apply to this closure plan beyond the disposition of relatively small volumes of Class 3 and 4 hazardous waste, and small quantities of waste water, all of which can be accommodated in the extensive disposal and treatment facilities operated by the enterprise. The closure will not impact on employment levels as all affected employees will continue with new production operations.

- 1 (e) JSC “Chimprom”: JSC “Chimprom”, also known as JSC “Vocco” (Volgograd Chemical Company), is located in the southern Volgograd. It is a large integrated chemical complex producing over 100 basic chemicals and consumer products, including liquid chlorine, caustic soda, methylene chloride, chloroform, calcium carbide and polyvinyl chloride. It has a mixture of private and public ownership with the state retaining a controlling interest. It is currently the largest active CFC-11/12 producer in Russia, with a nominal annual capacity of 24,000 MT and 1998 production of 5,974 MT. It is also one of the two producers of CFC-113 in the country and the only one producing exclusively for end use applications. Its annual CFC-113 production capacity is 18,000 MT, but 1998 production was only 150 MT. The CFC-11/12 production technology employed involves liquid phase fluorination of CTC with HF using an antimony-based catalyst HCl as a by-product. HF is purchased, while CTC and chlorine are produced on-site. The CFC-11/12 closure plan involves the conversion of part of the facility to HCFC-22 production while fully decommissioning redundant process components. Physically, this involves disabling and sealing one synthesis reactor, removal of CTC supply infrastructure and modification of the remaining process units for HCFC-22 production. The production of CFC-113 involves the direct liquid phase conversion of perchloroethylene (PCE) with HF in the presence of an antimony catalyst. The closure plan for this operation involves the complete elimination of production capability through dismantling of the reaction and purification systems, disconnection of all feedstock supply and product distribution infrastructure, and disabling of process controls. Closure activities are expected to be completed for both facilities by September 1, 2000.

The closure activities for this enterprise are considered sufficient to effectively eliminate CFC-113 production capacity and to allow its ready monitoring and verification. However, the closure activities applicable to CFC-11/12 capacity, while nominally effective, are inherently less definitive in that the conversion to HCFC-22 will technically allow potential periodic return to CFC-11/12 production, in the same manner common to many facilities elsewhere in the world. For this reason, a particular emphasis is placed on monitoring of the HCFC-22 production through access to production records, feedstock purchase information, production process data, and feedstock and product sampling. No major environmental issues apply to this closure plan beyond the disposition of relatively small volumes of Class 3 and 4 hazardous waste, and small quantities of wastewater, all of which can be accommodated through access to the extensive disposal and treatment facilities operated by JSC “Kaustik”. The closure will not impact on employment levels as all affected employees are expected to continue with new production operations.

- 1(f) JSC “Kirovo-Chepetsk Chemical Combine”: JSC “Kirovo-Chepetsk Chemical Combine” is located in

Kirovo-Chepetsk, Kirovskaya Oblast, approximately 900 km northeast of Moscow. It is one of Russia's largest chemical enterprises and is a primary producer of HF, PTFE, a variety of fluorocopolymers and fluorinated resins, caustic soda, chloroform, calcium fluoride, ammonia, ammonium nitrate, HCFC-22, HCFC-142b, HFC-23, HFC-227, perfluorocarbons and some medical products such as heart valves. It has a mixture of private and public ownership with the state retaining a controlling interest and retains a high security status as a strategic plant under the Ministry of Atomic Energy. It has production capacity for CFC-113 (5,800 MT/year) which is primarily dedicated to feedstock production for internal use in the production of chlorotrifluorethylene. In 1998, production for external sale in end use applications was 245 MT. The enterprise was also Russia's original halon 2402 producer. It retains a latent annual capacity of 1,030 MT/year but this facility has not operated since 1995. The enterprise also operates a HCFC-22 production facility, primarily designed to produce feedstock for PTFE production. The CFC-113 production process is based on the liquid phase fluorination of PCE with HF in the presence of an antimony catalyst. Actual closure of this facility is not proposed given its primary use as a legal producer of feedstock material. However, the enterprise will eliminate one third of the physical capacity by dismantling one complete process train, as well as dismantling product transfer and container filling infrastructure such that substantive off-site sales capacity is eliminated. Halon 2402 production was based on photochemical bromination of TFE, which is produced as a relief gas from PTFE production. The closure plan for this facility involves dismantling the process units, retaining only the synthesis reactors, which are to be sealed. The enterprise has committed to completing its closure activities by October 1, 2000.

The production closure for this enterprise, while definitive in the case of halon 2402, is complicated by the retention of CFC-113 production capacity for legitimate uses as well as the existence of HCFC-22 capacity and by the access limitations to the facility imposed by its high security status. To address these constraints, the closure plan places an emphasis on monitoring of production records and on production sampling in the case of the HCFC-22 facility. Unannounced access for purposes of examining specific facilities and records defined in the closure plan is provided for, as is sampling of direct outputs from HCFC-22 production. No major environmental issues apply to this closure plan beyond the disposition of relatively small volumes of Class 3 and 4 hazardous waste. No employment loss is anticipated to result with an estimated five affected employees being transferred to other production operations.

- 1(g) JSC "Redkinsky Pilot Plant": JSC "Redkinsky Pilot Plant" is located in the small town of Redkino in Tverskaya Oblast, approximately 140 km. northeast of Moscow. It operates as a technology development center for the chemical industry through approximately 50 pilot plants and laboratories, as well as being a primary commercial producer of a variety of specialty advanced chemicals. These include such products as organo-silicons; pyrographites; organo-aluminum compounds; carbon compounds; various high-temperature materials; catalysts and stabilizers; refrigerants and inhibitors; phenol-formaldehyde resins, and medical preparations. The enterprise is privately owned with no major state participation or reporting relationship. It is the country's only producer of CFC-13 and one of only two producers (the other being Kirovo-Chepetsk) of HFC-23 cryogenic refrigerants. The CFC-13 production facility subject to closure has an annual capacity of 200 MT, although 1998 production had declined to 12 MT. The production process is based upon direct, catalytic, gas phase disproportionation of CFC-12 in the presence of an aluminum oxide catalyst with impure CTC as the co-product. The closure plan involves completing the conversion of the facility for dedicated HFC-23 production through reconfiguration of the existing process units. The plan also provides for removal of CTC and CFC-12 inventories, and notification obligations respecting production operations. The enterprise has committed to completion of closure activities by July 1, 2000.

The effectiveness of this closure plan is based on the ability to monitor on-going production operations after full conversion to HFC-23 production, recognizing that periodic reversion to CFC-13 production by changing feedstock and process parameters would be possible. It is also enhanced by the limitations on

the enterprise's ability to acquire critical CFC-12 feedstock after closure of other production facilities. The direct environmental impacts of the closure are confined to the generation of small quantities of Class 3 and 4 hazardous waste, which can be disposed of in the enterprise's permitted landfill facilities. More significant, is the proper disposal of contaminated CTC inventories (30 MT), the proper disposition of which through reprocessing or incineration will be closely monitored under the closure plan. No employment loss is anticipated to result, since affected staff will remain with continuing operations.

Special Initiative Project Component 2: Enforcement Institutional Strengthening (US\$300,000)

This component is directed to specifically upgrading the enforcement capacity in SCEP related to the two key Government Resolutions that underpin the Special Initiative Project. With respect to the ban on ODS production, the component will fund technical assistance capacity and supplementary training for the seven regional branches of SCEP delegated to have long-term monitoring and verification responsibility at the participating enterprises. This is envisioned to be provided on a longer-term basis than that initially involved in the initial mandate of the monitoring and verification consultant (Special Initiative Project Component 3) in this area. As such, it will ensure that the activity is sustainable in the longer term. Also included in this scope will be practical enforcement TA and training related to control of security banking activities and the import/export bans. The latter is specifically envisioned to involve coordination with other CIS countries on control mechanisms. The component will also include near-term individual consultant support that will specifically support CPPI during the Special Initiative Project's early implementation period where a substantial workload associated with monitoring and verification is envisioned.

Special Initiative Project Component 3: Monitoring and Verification (US\$600,000)

This component covers monitoring and verification of closure by international and local experts during its implementation and for a period of one year after closure. It will be undertaken by an independent consulting firm under a Terms of Reference¹ jointly prepared by the Bank and CPPI and which has been subject to review by SITRG experts. The contracting of this consultant in accordance with Bank QCBS procedures and its ability to be mobilized have been established as a condition of the grant effectiveness. The scope of the consulting assignment covers the: i) development of detailed monitoring and verification procedures; ii) development of purchase specifications for monitoring and verification equipment and consumables; iii) provision of training and technical support for local regulatory authorities; iv) on-site inspection of closure activities; monitoring of EMP implementation; v) documentation of closure activities and compliance information including public consultation; vi) preparation of Closure Verification Reports and their finalization in acceptable form; vii) documentation of post closure verification plans and procedures; and viii) post-closure monitoring for a period of one year after closure completion. This component also makes provision for the supply of appropriate monitoring equipment and consumable supplies such as portable refrigerant analyzers, physical property measurement devices, seals and marking devices that would be used both by the monitoring and verification consultant and local regulatory authorities. Provision is also made for data management communication related to support equipment to be utilized by local authorities in documenting and reporting its monitoring activities in the longer term. Procurement of this will be undertaken by CPPI under International Shopping procedures applicable to goods.

Special Initiative Project Component 4: Enterprise Technology Transfer and Environmental Management System Development Assistance (US\$200,000)

This component makes technical assistance available on a selected basis for participating enterprises to examine technology options available for longer term development of ODS substitute technologies that facilitate moving beyond transitional substances and high GWP substitutes. It will also provide resources to one or two of the more progressive commercial enterprises participating in the Special Initiative Project to initiate the development of

¹ *Terms of Reference: ODS Production Closure Monitoring and verification Consultant*, CPPI, September 1999.

modern environmental management systems (EMS) in their overall operations. This activity will be specifically coordinated with initiatives related to EMS development and environmental liability management that are being pursued as part of the Environmental Management Project's Sectoral Environmental Action Plan implementation phase.

Special Initiative Project Component 5: Counterpart Incremental Operating Costs (US\$400,000)

This component provides for coverage of the CPPI's incremental operating costs associated with supervision of the Special Initiative Project. These will include staffing costs, office overheads, travel and general operating expenses, all as defined and administered for the Russian Federation Environmental Management Project. These expenses have been accounted in a way that will avoid cross subsidization among CPPI activities and the Special Initiative.

Annex 3
Special Initiative for ODS Production Closure in the Russian Federation
Estimated Special Initiative Project Costs

<u>Special Initiative Project Component</u>	Local	Foreign	Total
	-----US \$ million-----		
1. Enterprise Compensation Payments	0.0		24.7
1(a) JSC “Altaichimprom”		1.7	
1(b) Research Institute Applied Chemistry (GIPKh)		0.9	
1(c) JSC “Halogen”		6.6	
1(d) JSC “Kaustik”		6.0	
1(e) JSC “Chimprom”		6.3	
1(f) JSC “Kirovo-Chepetsk Chemical Combine”		3.0	
1(g) JSC “Redkino Pilot Plant”		0.2	
2. Enforcement Institutional Strengthening	0.1	0.2	0.3
3. Monitoring and Verification	0.2	0.4	0.6
4. Enterprise Technology Transfer and Environmental Management System Development Assistance	0.1	0.1	0.2
5. Counterpart Incremental Operating Costs	0.4	0.0	0.4
Total	0.8	25.4	26.2
<u>Total Baseline Cost</u>			
Physical Contingencies	N/A	N/A	N/A
Price Contingencies	N/A	N/A	N/A
<u>Total Special Initiative Project Cost</u>	0.8	25.4	26.2

Annex 4

Production Closure in the Russian Federation

Procurement and Disbursement Arrangements

Procurement

Summary of Procurement Procedures.

Proposed procurement arrangements are summarized in Tables A and A1. Consulting Services and Goods financed by the Bank-GEF (Trust Fund) shall be procured in accordance to Bank procurement guidelines. A procurement plan detailing the packaging and estimated schedule of the procurement actions is presented in Table B2. All other procurement information, including capability of the implementing agency, estimated dates for publication of GPN and the Bank's review process is presented in Tables B and B1.

PROCUREMENT OF TECHNICAL ASSISTANCE (US\$0.9 MILLION). Consultants acceptable to the Bank shall be employed by the Recipient on terms and conditions satisfactory to the Bank for *activities for which consultants' services are required*. The consultants shall be selected in accordance with principles and procedures satisfactory to the bank and on the basis of *Guidelines: Selection and Employment of Consultants by World Bank Borrowers* (Washington, D.C.: World Bank, 1997, revised in September 1997 and January, 1999). Such contracts shall be based on the standard form of contract for consultants' issued by the Bank, with such modifications thereto as shall have been agreed by the Bank.

SELECTION OF FIRMS. Unless otherwise agreed with the Bank, Quality-and Cost-Based Selection (QCBS) will be the preferred method for selection of firms.

SELECTION OF INDIVIDUAL CONSULTANTS. Unless otherwise agreed with the Bank, individual consultants will be selected on the basis of their qualifications for the assignment by comparing at least three CVs from potential candidates.

PROCUREMENT OF GOODS. Procurement of goods is carried out in accordance with *Guidelines: Procurement under IBRD Loans and IDA Credits* (Washington, D.C.: World Bank, January 1995, revised January and August 1996, September 1997, and January 1999).

INTERNATIONAL SHOPPING (IS). For portable analyzers and physical property measurement equipment, specialty consumables related to sealing and marking equipment and communication support and record keeping equipment, all required for monitoring and verification activities. Except as otherwise agreed with the Bank, goods contracts, up to an aggregate not to exceed US \$0.2 million may be procured under IS procedures by soliciting competitive price quotations in sealed envelopes from at least three suppliers from at least two different countries.

Review by the Bank of Procurement Decisions.

CONSULTANTS: The provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of firms estimated to cost less than \$100,000 equivalent, and for the employment of individual consultants estimated to cost less than \$10,000 equivalent. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference

for such contracts, and (b) amendments to contracts for the employment of firms raising the contract value to \$100,000 equivalent or above and amendments to contracts with individual consultants raising the contract value to \$10,000 equivalent or above. Besides, the first two contracts procured through LCS procedures will be subject to prior review rules.

GOODS: all procurement of goods will be subject to Bank's prior review as set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines.

Annex 4
Table A: Special Initiative Project Costs by Procurement Arrangements¹

(in US\$ million equivalent)

Expenditure Category	<u>Procurement Method</u>				Total Cost (including contingencies)
	ICB	NCB	Other	N.B.F	
1. <u>Compensation Payments</u> ²			24.700		24.700
2. <u>Goods</u> ³					
Portable Analyzers and Physical Property Measurement equipment			0.075		0.075
Sealing and Marking Equipment			0.050		0.050
Data Management/Communication Equipment			0.075		0.075
3. <u>Consulting Services</u> ⁴					
Monitoring/Verification Consultant (1)			0.400		0.400
ODS Substitute Technology Transfer and EMS Development (1)			0.200		0.200
Institutional Strengthening for ODS Production Ban and Security Bank Enforcement and Supervision (1)			0.200		0.200
Implementation Support Service Contracts (4)			0.100		0.100
4. <u>CPPI Incremental Operating Costs</u>			0.400		
<u>Total</u>			26.200		26.200

Note: N.B.F. = Not Bank-financed (includes elements procured under parallel cofinancing procedures, consultancies under trust funds, any reserved procurement, and any other miscellaneous items). The procurement arrangement for the items listed under “Other” and details of the items listed as “N.B.F.” need to be explained in footnotes to the table or in the text.

All figures are the amounts to be financed by the Grant

¹ Details on Consultants’ Services are shown in Table A1.

² Compensation Payments to eligible participating enterprises for closure of ODS production.

³ This equipment will be procured using International Shopping Procedures.

⁴ See next Table for details.

Table A1: Consultant Selection Arrangements

(in US\$ million equivalent)

Consultant Services Expenditure Category	<u>Selection Method</u>							Total Cost (including contingencies)
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	0.800							0.800
B. Individuals						0.100		0.100
<u>Total</u>	0.800					0.100		0.9

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines),
Commercial Practices, etc.

N.B.F. = Not Bank-financed.

Figures in parenthesis are the amounts to be financed by the Bank loan

Annex 4

Table B: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value (Threshold)	Procurement Method	Contracts Subject to Prior Review / Estimated Total Value Subject to Prior Review
	US \$ millions		US \$ millions
1. <u>Compensation Payments</u>	24.700 ¹		
2. <u>Goods</u>	0.200		
Portable Analyzers and Physical Property Measurement Equipment	0.075	IS	0.075
Sealing and Marking Equipment	0.050	IS	0.050
Communications/Data Management Equipment	0.075	IS	0.075
3. <u>Services</u>	0.900		
Monitoring and Verification (1)	0.400	QCBS	0.400
Enforcement, Training and Technology Transfer/EMS (2)	0.400	QCBS	0.400
Implementation Support Service Contracts (4)	0.100	Ind. ²	0.100
4. <u>CPPI Incremental Operating Costs</u>	0.400		
Total	26.2		
	Total value of contracts subject to prior review:		1.100

¹ These are not contracts, but compensation payments to eligible participating enterprises for closure of ODS production.

² Comparison of at least three CVs of potential candidates.

Annex 4
Table B1: Russian Federation: Special Initiative for ODS Production Closure
Procurement Information

Element	LIB	Section 1: Procurement Review		
		ICB	IS	NS
1. Procurement method thresholds			All Goods	
2. Prior Review			All contracts	
3. Ex-post Review		Explain briefly the ex-post review mechanism. ___% ex-post review with assistance of a Bank procurement staff during supervision		
Section 2. Capacity of the Implementing Agency in Procurement and Technical Assistance Requirements				
4. Brief statement		In March of 1999 the capacity of the proposed implementation agency, Center for Project Preparation and Procurement, was assessed in an average risk category. The CPPI's core procurement staff has experience with Bank Guidelines and have been handling procurement activities in the above projects included in the framework.		
5. Country Procurement Assessment Report or Country Procurement Strategy Paper status: To be determined			6. Are the bidding documents for the procurement ready by negotiations? Yes	
Section 3. Training, Information and Development on Procurement				
7. Estimated date of Special Initiative Project Launch Workshop	8. Estimated date of publication of General Procurement Notice	9. Indicate if contracts are subject to mandatory REI in Development Business	10. Domestic Preference for Goods	
To be determined.	To be determined.	Yes, for contracts above \$200,000.	No.	
12. Retroactive financing.	No.		13. Advanced procurement	No
14. <i>Explain briefly the Procurement Monitoring System and Information System:</i> CPPI will use their current procurement monitoring record procurement implementation. Monthly progress reports will regularly be sent to the Bank to update procurement implementation.				
Section 4. Procurement Staffing				
15. <i>Indicate name of Procurement Staff as part of the Special Initiative Project Team responsible for the procurement in the Special Initiative.</i>				
Name: Jose M. Martinez		Extension: 36746		
16. <i>Explain briefly the expected role of the Field Office in Procurement:</i> The WB Moscow Resident Mission procurement staff will implement the PAS on an as-needed basis.				

Annex 4

**Table B2: Russian Federation: Special Initiative for ODS Production Closure
PROCUREMENT PLAN**

Procurement Plan for the Special Initiative for ODS Production Closure in the Russian Federation						
	Description	Type	No. of Contracts	Est. Cost	Procurement Method	Procurement
Contract ID	CONSULTANTS' SERVICES					
i	Monitoring & Verification of ODS Production Closure	CS	1	400,000	QCBS	
ii	Technology Transfer/Environmental Management System	CS	1	200,000	QCBS	
iii	Enforcement Institutional Strengthening	CS	12	200,000	QCBS	
Iv	Individual Monitoring and Verification Support Consultants	CS	4	100,000	Ind ¹	
	Subtotal Consultant Services			900,000		
	GOODS					
a	Portable Analyzers and Physical Property Measurement Equipment	IS	1	75,000	IS	
b	Sealing and Marking Equipment	IS	1	50,000	IS	
	Communications/Data Management Equipment	IS	1	75,000	IS	
	Subtotal Goods			200,000		
	Total			1,100,000		
	CS - Consultant Services; G - Goods; IS – International Shopping; QCBS – Quality and Cost Based Selection; LCS – Least Cost consultants; Ind – Individual Consultant					

¹ Comparison of at least three CVs of potential candidates.

² Details on Consultants' Services are shown in Table A1.

³ This equipment will be procured using International Shopping Procedures.

Disbursement

Allocation of grant proceeds (Table C)

The proceeds of the proposed grant would be disbursed over three years (FY00 – FY02). The last disbursement is expected to take place by July 1, 2002. The estimated disbursement schedule for the grant is given in Table C and summarized in the Table C1 below.

Annex 4
Table C: Russian Federation: Special Initiative for ODS Production Closure
Allocation of Loan Proceeds

Expenditure Category	Amount in US\$million	Financing Percentage
(1) Compensation Payments		
(a) Tranche 1	7.410	100%
(b) Tranche 2	17.290	100%
(2) Consultant Services	0.900	100%
(3) CPPI Incremental Operating Costs	0.400	100%
(4) Goods	0.200	100%
Total	26.200	100%

Annex 4
Table C1: Russian Federation: Special Initiative for ODS Production Closure
Estimated Disbursement Schedule Summary

	FY00	FY01	FY02
Bank FY/US\$M	7.8	18.0	0.4
Cumulative	7.8	25.8	26.2

The last disbursement is expected to be made in FY 2002. Thereafter, CPPI, SCEP, and the Bank will continue monitoring compliance with the closure plans through regular supervision missions for up to 5 years after closure is completed. For that reason, the Special Initiative Project completion date has been set for June 30, 2005 and the closing date six months later for December 31, 2005. During this post-closure period, between last disbursement and Special Initiative Project closing date, the grant agreement would remain effective, including “Remedies of the Bank” under Article V of the Grant Agreement. In the event that (a) a default shall occur in the performance of any obligation on the part of the Recipient under this Agreement; or (b) any of the Participating Enterprises have failed to completely close their ODS production capacity, reinitiated the production of ODS, or have otherwise breached the terms and conditions of the Production Closure Compensation Payment Agreement, the Bank can enforce these remedies, which include an obligation by the Recipient to reimburse the full grant amount received from the Special Initiative Trust Fund.

Additional Grant funding made available by the Donors and GEF for World Bank fees of \$800,000 will be available during the entire duration of the Special Initiative Project until the closing of the Grant, December 31, 2005.

The compensation to participating enterprises under the Compensation Payments Category would be disbursed in two tranches (30% and 70%), and only after all enterprises have signed their Production Closure Compensation Payment Agreements acceptable to the Bank in the first instance, and only after all closure activities have been completed and verified in **all seven** enterprises, in the second instance.

Use of statements of expenses (SOEs):

The Bank may require withdrawals from the SI Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for consulting services under contracts with firms costing less than \$100,000, consulting services under contracts with individuals costing less than \$50,000, goods under contracts costing less than \$100,000, and incremental operating expenditures costing less than \$20,000, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

Special account:

To facilitate timely Special Initiative Project implementation, the Recipient may open and maintain a Special Deposit Account in a commercial bank on terms and conditions satisfactory to the Bank. The selection process and criteria for selection of the commercial bank would follow the WB procedure. During the early stage of implementation, the initial allocation on the Special Account (SA) would be limited to an amount equivalent to \$250,000 to be withdrawn from the SI Trust Fund Grant Account. However, when the aggregate amount of withdrawals from the SI Trust Fund Grant Account plus the total amount of all outstanding special commitments entered into by the Bank, shall be equal to or exceed the equivalent of \$500,000 the initial allocation may be increased up to the authorized allocation of \$500,000.

The applications for the replenishment of the SA would be submitted by the CPPI at such intervals as the Bank shall specify, on terms and conditions satisfactory to the Bank. The Bank will replenish the SA on the basis of the supporting documents for eligible actual expenses and statements of expenditure. When using SOE procedure, the CPPI shall retain all supporting documents and make them available for review by the Bank and by external auditors. All withdrawal applications will be fully documented.

The minimum application size for payments directly from the SI Trust Fund Grant Account or for issuance of Special Commitments is 20% of the current Special Account authorized allocation.

Compensation Payment Account

To provide the ODS Production Closure Compensation Payments to the enterprises, the Recipient shall open and maintain an ODS Production Closure Compensation Account in a commercial bank or Central Bank acceptable to the Bank. Deposits into the Compensation Payment Account shall be made by the Bank in two tranches only after conditionalities for each tranche are met by the Recipient in accordance with relevant legal agreements. Payments out of the Compensation Payment Account shall be made exclusively for eligible payments to participating enterprises. Upon the deposit of funds by the Bank into the Compensation Payment Account, the Recipient shall promptly, but not later than three (3) working days after such deposit transfer the funds to the ODS Producing Enterprises in accordance with the terms and conditions of the ODS Production Closure Compensation Payment Agreements.

Audit:

The Recipient will appoint an independent auditor in accordance with procedures acceptable to the Bank for annual audit of the Special Initiative Project financial statements and financial statements of CPPI. The Special Initiative Project audit will include in particular, audit of the Special Account, Compensation Payment Account, records and financial statements. The audit report would be furnished to the Bank within six months of the end of each fiscal year audited. The audit of the Special Initiative Project would be included in the same audit undertaken for other CPPI implemented activities, such as the Environmental Management Project and the GEF ODS Consumption Phase-out Special Initiative Project under terms of reference acceptable to the Bank.

Annex 5
Special Initiative for ODS Production Closure in the Russian Federation

Special Initiative Project Processing Budget and Schedule

A. Special Initiative Project Budget (US\$000)	<u>Planned</u> (At final PCD stage)	<u>Actual</u>
Bank Administrative Costs funded from SI Trust Fund	800	
B. Special Initiative Project Schedule	<u>Planned</u> (At final PCD stage)	<u>Actual</u>
Time taken to prepare the Special Initiative Project (months)	<u>13 months</u>	22 months
First Bank mission (identification)	<u>04/01/98</u>	<u>06/23/98</u>
Appraisal mission departure	<u>03/01/99</u>	<u>10/21/99</u>
Negotiations	<u>05/01/99</u>	<u>11/22/99</u>
Planned Date of Effectiveness	<u>07/01/99</u>	<u>05/01/00</u>

Prepared by: State Committee for Environmental Protection of the Russian Federation

Preparation assistance: GEF ODS Consumption Phase-Out Special Initiative Project Trust Fund

Bank staff who worked on the Special Initiative Project included:

Name	Specialty
Michele de Nevers	Sector Leader
John Hayward	Sector Leader
Kenneth Newcombe	Global Environment Coordinator
Lars Vidaeus	Global Environment Coordinator
Konrad von Ritter	Program Management
Roger Batstone	Task Management
Vladimir Tsirkunov	Program/Task Management
Richard Cooke (Consultant)	Technical/Environmental
Vassili Rodionov (Consultant)	Environmental
Thomas Waltz (Consultant)	Donor/SITRG Coordination
Jose Martinez	Procurement
Janis Bernstein	Environmental/Social Assessment
Gennady Pilch	Legal
Oxana Berkounova	Legal
Maria Nikolov	Administration
Lydia Petrashova	Financial
Tatyana Shadrunkova	Administration
Bilal Rahill	Donor Funding
Steve Gorman	Donor Funding
Karin Shepardson	GEF Regional Coordinator

Annex 6

Special Initiative for ODS Production Closure in the Russian Federation

Documents in the Special Initiative Project File*

A. Special Initiative Project Implementation Plan

Project Implementation Plan (PIP): Special Initiative for Ozone Depleting Substances Production Closure in the Russian Federation, CPPI, Moscow, November, 1999

B. Bank Staff Assessments

World Bank Office Memorandum, Ian Johnson (Vice President ESDVP) to Johannes F. Linn (Vice President ECAVP), July 2, 1999.

Closure Plan Technical Appraisal Report – JSC “Altaichimprom”, November 1999

Closure Plan Technical Appraisal Report – Research Centre “Applied Chemistry”, November 1999

Closure Plan Technical Appraisal Report – JSC “Halogen”, November 1999

Closure Plan Technical Appraisal Report – JSC “Kaustik”, November 1999

Closure Plan Technical Appraisal Report – JSC “Chimprom”, November 1999

Closure Plan Technical Appraisal Report – JSC “Kirovo-Chepetsk”, November 1999

Closure Plan Technical Appraisal Report – JSC “Redkino Pilot Plant”, November 1999

Global Environment Facility, Russian Federation Ozone Depleting Substances Phase-out Project, Project Document, The World Bank, Report No. 15326-RU, May 1996.

Global Environment Facility, Russian Federation Ozone Depleting Substances Phase-Out Project, Project Document: Second Tranche, The World Bank, Report No. 17391-RU, February 1998.

Global Environment Facility, Russian Federation Ozone Depleting Substances Phase-Out Project, Project Document: Project Progress Report and Third Tranche Submission, The World Bank, Report No. 18973-RU, May 1999.

C. Other

Project Initiation Letter, Michael Carter (Country Director for Russia) to Mr. Victor Danilov-Danilian (Chairman, State Committee for Environmental Protection of the Russian Federation), February 1998.

Prospectus: Special Initiative for ODS Production Closure in the Russian Federation, State Committee for Environmental Protection, October 1998.

Special Initiative Donors Roundtable Meeting Protocol, Moscow, October 1998.

Plans for ODS Production Closure in the Russian Federation, Arthur D. Little International Inc., May 1999 (Confidential).

Review Comments of SITRG on “Plans for ODS Production Closure in the Russian Federation”, SITRG, June 1999.

Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances Production at OJSC “Altaichimprom”, CPPI, September 1999

Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances Production at Russian Research Center “Applied Chemistry”, CPPI, September 1999

Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances (CFC-11, CFC-12, halon 2402) Production at OJSC “Halogen”, CPPI, September 1999

Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances (CFC-

11 and CFC-12) Production at OJSC “Kaustik”, CPPI, September 1999
Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances (CFC-11, CFC-12, CFC-113) Production at OJSC “Chimprom”, CPPI, September 1999
Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances (CFC-113, halon 2402) Production at OJSC “Kirovo-Chepetsk Chemical Combine”, CPPI, September 1999
Materials on Environmental Assessment of the Plan of Closing Ozone Depleting Substances (CFC-13) Production at OJSC “Redkino Pilot Plant”, CPPI, September 1999
Results of Expert Assessment of Possible Social Consequences of Ozone Depleting Substances Production Closure, Institute for Comparative Labor Relations Research, October, 1999
Grant Agreement, Special Initiative for ODS Production Closure in the Russian Federation, Trust Fund Grant No- 020131, October, 1999
Draft Sub-Grant Agreement Form, Special Initiative for ODS Production Closure in the Russian Federation, Trust Fund Grant No- 020131, September, 1999

*Including electronic files.

Annex 7

Financial Management Capacity Assessment

Center for Special Initiative Project Preparation and Implementation of international Special Initiative Projects on Technical Assistance (CPPI)

1. General

The Center for Project Preparation and Implementation of International Projects on Technical Assistance (CPPI) is an autonomous, non-commercial organization founded by the State Committee for Environmental Protection, the Ministry of Natural Resources, and the Federal Forest Service of RF. According to the Charter, the objective of CPPI is to prepare and implement the Special Initiative Projects provided to Russian Federation and financed by international financial organizations and governments of foreign countries. The CPPI is the implementing agency of the Environment Management Project financed by the Bank, the Swiss grant providing co-financing to Natural Pollution Abatement Facility Sub-loans, the Ozone Depleting Substances Consumption Phase-out and Biodiversity Conservation Projects financed by GEF Grant and, the Pre-investment Environmental Studies Project financed by a Swiss Grant. The CPPI was also responsible in preparation of Sustainable Forestry Pilot project financed by sub-grant of Bank's Portfolio Development Loan and implemented by the Federal Center for Project Finance. The CPPI underwent restructuring exercise in early 1999 which resulted in the adoption of a new governance and organizational structure.

It is proposed that the CPPI will also act as the implementation agent of the Russian Federation for the Special Initiative for ODS Production Closure.

2. Governance Structure.

Governance over the CPPI activities is through the Board consisting of the following founders and members of CPPI which are: State Committee for Environmental Protection; Ministry of Natural Resources; Federal Forest Service of RF; Ministry of Finance; Ministry of Economy; Federal Center for Project Finance; CPPI (represented General Director; and the Executive Director of NPAF). The Board is headed by Co-Chairpersons who are the Chairman of State Committee on Environment Protection and the Deputy Minister of Ministry of Natural Resources. As defined in the Charter, Board meetings should be conducted not less than two times a year. The main functions of the Board are to approve: changes to charter; major restructuring of activities; the approval of the annual budget; changes to the organizational structure and staffing including the approval of the salaries schedule; and the selection of an auditor.

In order to coordinate the activities under the various projects, Supervisory Councils for individual projects are established. These councils work in accordance with the relevant normative acts of the Russian Government. In each Supervisory Council various Committees are established to provide coordination and control over various project components. The composition of the Committees depends on involvement of different governmental agencies in the relevant project implementation.

3. Regulations and Procedures

The activities of the CPPI are regulated by national laws and regulations. At present, the CPPI does have internal documentation however it is inadequate in defining structural and operational issues including the CPPI organizational structure, managerial functions, employment policy, budgeting, and financial management procedures. According to CPPI management, a draft Operating Manual was prepared and partially implemented by CPPI management. However, as was concurred by management, this manual is not used by CPPI staff for working purposes and can not be considered as useful tool of

Special Initiative Project implementation. We were not provided with a version of this draft document and therefore cannot comment on its adequacy or completeness. Later in this assessment we will highlight important areas which lack appropriate instructions, policies and procedures.

4. Organizational Structure and Staffing

The CPPI full-time staff total 74 people who are working under the following 3 main functions: directorate, general services (legal, procurement, accounting and finance), and project management groups. In our assessment, the focus is the operation of General Services departments, the effective functioning of which is crucial to overall project management and financial management capacity of CPPI.

The Contract management department handles all issues of procurement, contract monitoring and legal support. Staff of the Department consist of the following: Chief of the department; three contract management specialists responsible for regional issues; and two procurement specialists responsible for contract preparation and monitoring. The Chief of the Department reports to the Deputy Director responsible for General Services.

The Accounting department is headed by the Chief Accountant who is supported by four permanent staff bookkeepers. The Chief Accountant reports directly to the General Director. The Accounting Department has responsibility for the preparation of entity financial statements compliant with Russian legislation on accounting and taxation.

The Financial group consists of two people who are the Financial Manager and the Financial Adviser. Included within the responsibilities of the Finance Group are disbursement and the preparation of Special Initiative Project financial reports in conformity with the Bank's requirements, and regular reporting to the Ministry of Finance and Federal Center for Project Finance. The Deputy Director of General Services is responsible for managing this group.

Staffing policies are partially defined by a number of internal instructions which mainly focus on staff job descriptions. We were not able to familiarize ourselves with recruitment policies of the CPPI as well as with procedures on staff performance reviews, training opportunities of staff, and norms of business ethics.

5. Accounting Systems and Reporting Requirements.

Under the current financial management arrangements, the entity accounting and reporting is handled by the Accounting department, and projects disbursement is handled by financial group.

Entity accounting in accordance with Russian legislation, is performed utilizing the Inotech accounting software package. Various checks of CPPI accounting system by state regulatory bodies like Accounts Chamber, MOF Control and Revision department revealed no deficiencies and commented on the acceptable quality of accounting system and controls. Important internal controls like maintenance of control accounts and trial balances, reconciliation, fixed assets registers, check of arithmetical accuracy of the records are included in the accounting software modules and supported by appropriate segregation of duties and authorization procedures in accounting department. All accounting is done in Rubles.

Special Initiative Project financial reporting is handled by the Financial Group and is prepared from withdrawal applications. The Financial group uses a computer database for monitoring purposes and prepares all statements in Excel Spreadsheets. No internal controls such as double entry, or systematic reconciliation are built into the system. All reports are prepared in US Dollars.

There is lack of interface between the Special Initiative Project and the entity financial statements. As the

Special Initiative Project financial statements are not part of the double entry book-keeping system, key internal controls such as overall cash reconciliation do not exist in the financial system. In order to avoid duplication of efforts of accounting and financial people, the two systems need to be integrated to ensure reconciliation. CPPI reporting should be able to generate the following financial reports:

- Balance Sheet , Income Statement, Cash Flow Statement prepared in accordance with Russian Legislation
- Balance Sheet , Income Statement, Cash Flow Statement prepared in accordance with International Accounting Standards (IAS). The schedule of operating revenues breakdown should be prepared and attached to Income statement to provide greater disclosure of individual Special Initiative Project costs as one of the Notes to the Financial Statements.
- Special Initiative Project Financial Statements with Notes for six projects under implementation.
- Financial reports for the Ministry of Finance and Project Finance Center prepared on a monthly basis.

5.1. Internal Control Procedures.

As we already indicated above, there is no properly authorized Operating Manual which has been adopted by the CPPI. Recently, certain steps to improve the internal control procedures were undertaken by CPPI management. The regulation on “Procedure for financing expenditures and documenting payments” was adopted by the General Director’s order. This document can serve a good basis for the preparation of the Operational manual of CPPI.

5.2. Budget preparation and execution

We were not provided with any regulations or policies on budget preparation, approval and execution. According to management representations and job descriptions, the Financial group is responsible for preparing administrative and Special Initiative Project budgets under overall guidance of Deputy Director of General Services. The CPPI administrative budget is then adopted by the Board. General service department costs are allocated to three sources of financing in the budget. In accordance with recent requirement of the Bank regarding multi-project PIUs budget, the CPPI should submit to the Bank annual administration budget reflecting allocation to each individual project. This budget should be incorporated into the Schedule mentioned above.

6. Results of FY98 audit.

In four reports out of five reports submitted, the auditors qualified their opinions on Special Initiative Project financial statements and Special Account statement. The reasons for qualifications were always related to ineligible payments of VAT out of grant funds. In accordance with legal agreements, the MOF of Russia is responsible for providing co-financing for VAT payments to implementing agency’s co-financing Special Initiative Project accounts. However, procedures for reimbursement of VAT incurred under the grants were not agreed. Due to this situation, during 1998 financial year VAT payments to CPPI were substantially delayed by MOF. All ineligible expenditures were reimbursed by MOF to the Bank in March 1999. However, the auditors have made a decision not to change their opinion in spite of subsequent reimbursement of expenditures due to incomplete reflection in CPPI books and accounts of VAT reimbursement made by MOF directly to the Bank. The Bank recommended CPPI to obtain necessary supporting documentation from MOF and request the auditor to reissue an opinion due to the material nature of the subsequent events.

The submission of the audit report was substantially delayed by the PIU (in early September instead of early June). In order to avoid the delay in submission of the audit reports to the Bank in year 2000, the auditor’s selection process should be started immediately and completed by the end of 1999.

7. Audit requirements for FY99.

In addition to the requirement on audit of Special Initiative Project financial statements, starting from FY99, the CPPI should submit to the Bank, entity financial statements audited in accordance with International Standards on Auditing. Entity financial statements, namely CPPI Balance Sheet, Income Statement and Cash Flow Statement should be prepared in accordance with International Accounting Standards. The auditor is also required to express an opinion that CPPI's financial statement present a true and fair statement of the financial position of the Center and all operational expenditures of the CPPI allocated to the projects in accordance with the budget approved by the Bank. Additional disclosure in the Notes to financial statements should be given in order to reconcile the operational revenues of the CPPI to all sources of financing. The TOR for auditors should be accordingly amended.

8. GEF ODS Production Closure Grant.

In addition to the standard Special Initiative Project audit required by the Grant Agreement, the audit of the Statement of Sources and Uses of Funds of Compensation Account should be conducted. The TOR for the 1999 audit should provide for an extension of the auditor's engagement to year 2000, subject to satisfactory performance. The appointment of the auditor to conduct the audit of 1999 books and records will fulfill the condition of effectiveness of the grant.

9. Operating Manual.

The main deficiency of the financial management system of CPPI, is the lack of appropriate internal documentation providing necessary guidance on internal control, etc. The following main issues should be included at a minimum in the CPPI Operating Manual:

- Descriptions and objectives of the Special Initiative Projects implemented
- Governance Structure (CPPI Board, projects supervision committees)
- CPPI Organizational Structure
 - Directorate
 - General services departments
 - Project departments
- Administrative procedures
 - Staffing policies (recruitment, assessment, training opportunities etc.)
 - Job descriptions
- Financial Management Procedures
 - Budgeting system
 - Entity accounting and reporting
 - Projects accounting and reporting
 - Payments
- Contract Management procedures
 - Procurement
 - Clearance and authorization procedures
 - Contract implementation monitoring and supervision
 - Contract management and monitoring procedures
- SI ODS Production Closure Grant implementation and monitoring procedures.

10. Proposed Action Plan for strengthening financial management capacity of CPPI:

Action	Completed by	Bank's action
1. TOR for auditors should be revised in order to reflect additional requirements	End of November, 1999	Review and approve
2. Draft Operational manual is prepared and submitted to the Bank for review	End of December, 1999	Review and provide comments
3. Draft Income Statement and Schedule of operational breakdown is submitted to the Bank for review	End of January, 2000	Review
4. Plan for integration of accounting and financial (disbursement) systems is presented to the Bank	End of January, 2000	Review, advise and approve
5. Administration Budget for year 2000 of CPPI is submitted to the Bank	End of December, 1999	Approve
6. Operating manual acceptable to the Bank is adopted by CPPI Board.	End of April, 2000	
7. Auditor is appointed	Grant effectiveness	

11. Conclusion.

Financial Management System of the CPPI is certified by a financial management specialist as meeting the minimum financial management requirements of the Bank, subject to implementation of the agreed action plan prior to Special Initiative Project effectiveness. Appointment of the auditor is a condition of effectiveness of the Grant.