



Global Environment Facility

MOHAMED T. EL-ASHRY
CHIEF EXECUTIVE OFFICER
AND CHAIRMAN

July 27, 2000

Dear Council Member:

I am writing to notify you that the World Bank, the Implementing Agency for the project *Russian Federation: Ozone Depleting Substance Consumption Phase Out Project: Tranche III*, has submitted the proposed project document for CEO endorsement prior to final approval of the project in accordance with World Bank procedures.

This project document covers the appraisal of eleven ODS consumption phase-out sub-projects and were prepared in a manner consistent with those submitted for Tranches I and II. These sub-projects address the remaining major ODS consumers identified in all sectors within economically viable enterprises.

Earlier, the World Bank has advanced the submission of the project document covering the *Special Initiative (SI) for ODS Production Closure* component of the project which I endorsed in April 2000.

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 a request, please confirm for us your current mailing address.

Sincerely,


Cc: Alternates, Implementing Agencies, STAP

OFFICE MEMORANDUM

DATE: June 19, 2000

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

FROM: Lars Vidaeus, GEF Executive Coordinator



EXTENSION: 34188

SUBJECT: **RUSSIAN FEDERATION: *ODS Consumption Phaseout Project: Tranche III***
Final Council Review/CEO Endorsement

1. Please find electronic attachments of the Sub-project Appraisal Documents for the above mentioned project for review by Secretariat staff, prior to circulation to Council and your final endorsement. We also submit for your approval an amendment to the Project Work Program in order to adjust it to changes in the availability of funding. In addition, we are providing an update on the status of Special Initiative for Ozone Depleting Substances Production Closure (SI) which you endorsed in April 2000. The Bank has reviewed this material and recommends it for your final endorsement in accordance with the Tranche III Work Program approved by the GEF Council Meeting in May 1999.

2. The Project Documents covering the appraisal of eleven (11) ODS consumption phase-out sub-projects are being presented for your final endorsement. They have been prepared in a manner consistent with those previously submitted for Tranches I and II. These sub-projects address the remaining major ODS consumers identified in all sectors within economically viable enterprises. The appraised amount of ODS to be phased-out is 783 MT ODP and the latent consumption capacity to be eliminated is estimated to be 3,438 MT ODP. The specific sub-projects include one in the consumer aerosol sector (JSC «Tovary i Lekarstva»), one in the medical aerosol sector (JSC «Altaivitaminy»), one in the domestic refrigeration sector (JSC «Iceberg»), two in the commercial refrigeration sector (JSC «Iskra», JSC «Kholodmash»), three in the refrigeration servicing sector (JSC «Combine Torgtekhnik», JSC «Pyatigorskortorgtekhnik», JSC «Kemerovortorgtekhnik») and three in the non-insulating foam sector (JSC «Plastic», JSC «Stroidetal», JSC «Nelidovo Plastics Plant»). Total GEF funding proposed for these sub-projects is US\$14,636,138.

3. The project document is fully consistent with the objectives and scope of the proposal endorsed by Council as part of the May 1999 work program and reflects comments made during work program endorsement by GEFSEC, STAP, and Council members as follows: The subproject appraisals specifically address the various issues related to eligibility and consistency with Montreal Protocol Multilateral Fund practices and GEF Operational Strategy identified by the Bank in Paragraph 13 of the Work Program submitted and approved by the GEF Council Meeting in May 1999. All sub-

projects have received positive STAP/OORG clearance prior to submission of the Work Program in May 1999 and this clearance has been confirmed for those sub-projects where changes were introduced in the course of the appraisal. The Project Documents also address the comments made by the GEF Council members during the submission of the Project in May 1999. A detailed response to each of these comments can be found in Attachment 2 of Annex II of the Government's submission letter. Furthermore, we discussed these comments and our response directly with representatives of Switzerland, who had provided extensive comments, under the auspices of the GEF Secretariat, and concluded that all concerns had been satisfactorily resolved.

4. At this time, all sub-projects are ready for implementation. Draft Sub-Grant Agreements have been agreed in principle with all beneficiary enterprises and are currently being finalized for submission to the Bank for "no objection". In this regard, each Sub-Grant Agreement will include an assurance that the enterprise is able to pay applicable taxes or has obtained appropriate exemptions under Russian legislation, and an assurance that the enterprise has made appropriate arrangements for sufficient ODS supplies during a transitional period after ODS production has ceased in the Russian Federation. The Bank has reviewed and provided its "no objection" to the procurement plans contained in the Project Documents. Enterprises are currently preparing final technical specifications, and a procurement consultant is being selected to provide support to the enterprises in the preparation of the necessary bidding documents.

Proposed Work Program Amendments

5. The overall scope of the Work Program for Tranche III remains as approved by the GEF Council Meeting in May 1999. However, it became apparent during the Bank's last supervision mission in February 2000 that several amendments have become necessary to adjust the Work Program to changed circumstances. The major adjustment is a reduction of the estimated funding available for Tranche III resulting from an unfavorable exchange rate change in the SDR/US\$ conversion. The original approved Tranche III funding of US\$31,269,974 was reduced to US\$26,799,000 as of February 2000. In addition, two relatively small sub-projects have been withdrawn by the enterprises, but eligible funding for the three non-insulating foam sub-projects had to be increased in order for them to proceed. This has resulted in a net increase in the grant funding required for the investment sub-project portfolio presented herein for endorsement. Given the fixed allocation from Tranche III to the SI project of US\$8,500,000 and the increase in funding for the investment sub-projects, the funding for the Technical Assistance and the Small Grant Program components had to be reduced, as well as the funding for incremental operating costs of the project implementing unit. A detailed explanation of this funding re-allocation and its impact on the Project Work Program content is provided by the Government in its submission letter, and specifically in Attachment 1 of Annex II to this submission letter.

6. The remaining component within the Tranche III requiring your endorsement is the Small Grant Program (SGP). Detailed preparation and appraisal of this program has been delayed as a result of the restructuring of the Work Program described above and the significant reduction in funding allocated to it. However, preparation of a downsized

and simplified program, that is focused on additional regional refrigeration servicing sub-projects, is under preparation and is anticipated to be presented for endorsement in November 2000 after the scheduled mid-term review of the Project. At that time, we will review any further impact of the SDR/US\$ exchange rate fluctuations to finalize the funding allocation to the SGP.

Special Initiative Status

7. Progress in the implementation of the SI has been delayed due to the restructuring of the Government of the Russian Federation after the recent presidential elections. As a result, the government resolution authorizing the signing of the Grant Agreement has not yet been approved. However, the Inter-agency Commission for Ozone Layer Protection of the Ministry of Natural Resources, which is now responsible for environmental protection in the Russian Federation, and the ODS producing enterprises have confirmed their commitment to the Project implementation, taking into account that this resolution was agreed by all concerned ministries and agencies prior to restructuring. The Ministry of Natural Resources explicitly supported an expedient approval of that government resolution. The Bank has expressed its concern with these delays in a letter to the Deputy Prime Ministers of the Russian Federation and requested clarification concerning what amendments to the agreed text of the Grant Agreement, if any, will be required to reflect the new executive structure.

8. The Bank received through the GEF Secretariat comments from Switzerland on the report of the Special Initiative Technical Review Group (SITRG) and on the production of non-Annexes A and B substances in the Russian Federation. We can confirm that the points will be taken into account by the Bank during supervision of the project. Concerning the specific point related to the timely appointment of the Monitoring and Verification Consultant, we are pleased to inform you that contracting arrangements have already been completed. We also intend to utilize the expertise of SITRG experts during project implementation, as suggested in the Swiss comments.

9. Please let me know if you require any additional information to complete your review of the project document prior to circulation to Council. We look forward to hearing from the Secretariat as soon as possible, whether this document can now be circulated to Council for their review. Many thanks.

Attachments

cc: Messrs./Mmes. King, GEF PROGRAM COORDINATION (GEFSEC); Cleaver, Hayward, Tuck, Marc, Bromhead, Von Ritter, Waltz, Nikolov, Martinez, Shepardson, Zeki, Tsirkunov, Cooke (Consultant) (ECSSD), Carter, Holt (ECC10); Pilch, Berkounova (LEGEC); Mackie (LOAEL); ECSSD Imaging, Vidaeus, Towsey, Khanna, Aryal (ENV); ENVGC ISC,



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17-06-134/630 05.05.2000

Mr. Michael Carter
Country Director for Russia
Resident Representative in Moscow
International Bank for Reconstruction and Development

Re: Russian Federation GEF Ozone Depleting Substances Consumption Phase-out Project (TF028314) -
Submission of Appraised Third Tranche ODS Consumption Phase-out Sub-projects and Request for
Work Program Amendment

Dear Mr. Carter,

I have the pleasure to inform you that on behalf of the Government of the Russian Federation we have submitted to the World Bank the appraised portfolio of ODS consumption phase-out sub-projects prepared in accordance with the third tranche work program of the Russian Federation GEF ODS Consumption Phase-out Project (GEF Project) and also an amendment in the approved work program consistent with the agreements reached with the World Bank Project team during February 2000 Supervision mission.

The State Committee of the Russian Federation for Environmental Protection (SCEP) and more specifically Center for Preparation and Implementation of International Projects on Technical Assistance (CPII) has completed the appraisal of eleven ODS consumption sub-projects proposed for the third tranche of the GEF Project. While the advice and support of the World Bank in their preparation and finalization is gratefully acknowledged I would note that these appraisals have been undertaken by the local Implementing Agency to full international standards. The growth of expertise in this field within the Russian Federation is one of the achievements of the GEF assistance provided to date.

The sub-project specific appraisal reports, documented in a form consistent with the World Bank procedures have been formally submitted to the World bank as the GEF Implementing Agency for «no objection» and forwarding for the GEF approval.

In conclusion, I would like to express hope that this submission will meet with the Bank's approval. Taking this opportunity I would like to express my gratitude to the World Bank representatives who have participated in this work and continue to provide their valuable support in implementing this important global initiative.

Yours Sincerely,



Victor I. Danilov-Danilian

Chairman of the State Committee
of the Russian Federation for
Environmental Protection,
Co-Chair of the Inter-Agency
Commission for Ozone Layer Protection

CPPI

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OF INTERNATIONAL PROJECTS ON TECHNICAL
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CPPI 24.1/10.1-118
May 5, 2000

Mr. Konrad von Ritter
Program Team Leader, ECSSD
Europe and Central Asia Region
The World Bank
1818 H Street NW.
Washington DC
USA

Re: Russian Federation GEF Ozone Depleting Substances Consumption Phase-out Project (TF028314) – Submission of Appraised Third Tranche ODS Consumption Phase-out Sub-Projects and Request for Work Program Amendment

Dear Mr. Von Ritter:

On behalf of the State Committee for Environmental Protection (SCEP) we are submitting the appraised portfolio of ODS consumption phase-out sub-projects contained in the third tranche work program of the Russian Federation GEF ODS Consumption Phase-out Project (the Project). In addition, we are taking this opportunity to request an amendment in the approved work program, consistent with the agreements reached with the World Bank project team during the February 2000 supervision mission. This submission is made with the formal request to the World Bank as the GEF Implementing Agency for the Project for «no objection» and forwarding to the GEF for CEO endorsement of both the ODS Consumption Sub-Projects and the amended work program.

The GEF ODS Consumption Phase-out Project is a framework project approved by the GEF Council in May 1996. It was structured in three tranches and has funding of SDR 41.2 million (or up to USD 60 million during Grant signing). The first two tranches valued at USD 29.0 million are either in the process of completion or fully under implementation. Their implementation status has been comprehensively reviewed by the World Bank project team during the February 2000 supervision mission and reported to be satisfactory. The third tranche work program contains three elements: A) Consumption Phase-out Sub-Projects; B) ODS Production Closure Support; and C) Residual ODS Phase-Out Management. These have been documented in the Third Tranche Project

Document (World Bank Report No. 18973-RU) and Project Brief D-18 presented to the GEF Council at its May 1999 meeting. The GEF Council approved the work program at that time with the requirement that its investment components are submitted after appraisal for CEO endorsement and that Council member comments be specifically addressed during the appraisal mission. The first such submission covering the ODS Production Closure Support element (USD 8.5 million) and commitment to the Special Initiative was made in January 2000 and received CEO endorsement on April 3, 2000.

The main purpose of this submission is to seek Bank «no objection» and CEO endorsement of ODS Consumption Phase-out Sub-project element of the work program. However, during the period since GEF Council approval in May 1999, it has been determined that a number of modifications need to be made to the work program as a whole to accommodate recent developments and changing circumstances. The following first describes the changes proposed to the work program, consistent with agreements reached during the World Bank project team's February 2000 supervision mission. This is followed by overview remarks related to the appraisal of the consumption phase-out sub-projects, for which detailed appraisal reports are attached.

Proposed Amendment to the Third Tranche Work Program

The principle reason for requesting a modification in the third tranche work program comes from the reduction in funding available for it due to an exchange rate adjustment. The third tranche work plan funding as approved was USD 31,270,000. However, as the Project Grant Agreement is denominated in SDR, an effective reduction in the funding available has occurred due to exchange rate fluctuations in the composite exchange rate of the basket of currencies making up SDR. This has changed from SDR = USD 1.456 in 1996 when the Grant Agreement was signed to SDR = USD 1.348 (February 2000) which results in an estimated reduction in USD denominated project costs of USD 4,471,000. Since the first and second tranches are fully committed in USD, we were informed by the Bank that the third tranche allocation is reduced to USD 26,799,000. While we have proceeded with restructuring of the work program on the basis of this new funding assumption, we also propose that any positive funding changes resulting from future exchange rate variation be returned for use in the restructured Residual ODS Phase-out Management element of the work program described below.

An allocation of funding within the work program is also necessitated by several changes in the physical scope of the ODS Consumption Sub-project portfolio. Upon initiating pre-appraisal activities, it was determined that two of the sub-projects with sub-grant funding of USD 513,000 in the work program would be withdrawn by the enterprises involved. In both cases, the enterprises (Design Bureau «Salut» and Miass Machine Building Plant) are proceeding with phase-out using their own resources. At the same time pre-appraisal work on the three non-insulating foam sub-projects indicated that changes to more conventional hydrocarbon based technologies and reassessment of the suitability of critical equipment in relation to safety considerations were warranted. As a result these sub-projects were re-prepared with a resulting increase in the eligible incremental

investment costs and proposed sub-grants. These were also re-submitted for STAP/OORG review and clearance. The net effect of these changes has been to increase the proposed allocation to the ODS Consumption Sub-Project element of the work program from USD 13,805,000 as originally approved to USD 14,636,138.

To compensate for the reduction in overall available funding, we have been forced to reduce the funding allocations to the Residual ODS Phase-out Management element of the work program, as well to funding of incremental operating costs associated with project implementation. The funding for the Residual ODS Phase-out Management element is to be reduced from USD 8,377,500 to USD 3,183,176 and the reduction in incremental operating costs is from USD 586,674 to USD 479,686. Associated with this, we have undertaken a restructuring of the Residual ODS Phase-out Management element's components, namely the Small Grant Program, Halon Banking Program and Technical Assistance Program. The following describes this restructuring by component:

- i) Small Grant Program: This was originally to be funded with USD 5,577,000 and was intended to provide a mechanism for financing consumption phase-out investments in small consumers across all sectors, but with particular emphasis on the fire protection and refrigeration servicing sectors. A process involving several auctions was contemplated over a two-year period. Due to funding reductions, this will now be funded with an estimated USD 1,353,395 and be focused on refrigeration servicing phase-out investments in a number of regional servicing enterprises who are currently preparing small grant sub-projects. It is envisioned that this will take the form of a portfolio of five to ten small conventional recovery and reclaim sub-projects modeled on the three larger sub-projects contained in the ODS Consumption Phase-out element. Submission of the appraised small grant portfolio for the Bank's «no objection» is anticipated in October 2000. Taking into account problems associated with SDR exchange rate variation in future and the flexibility of SGP providing for a wide range of participants, we assume that it would be possible to agree with the Bank change in the overall financing available for SGP.
- ii) Halon Banking Program: This component was originally funded with USD 1,500,000 in assistance directed to the development of a national plan for development and operation of a halon banking system. This has now been down sized and rolled into the overall Technical Assistance Program described below. The down sizing has involved elimination of a substantial part of the international consulting assistance that would provide both management system and infrastructure planning support, and replacing it with more directed, primarily local consulting support to specific initiatives.
- iii) Technical Assistance Program: The originally proposed Technical Assistance Program was allocated USD 1,300,000 and covered a range of initiatives aimed at upgrading the country's institutional capacity, specifically in relation to residual phase-out opportunity identification, regulatory enforcement capacity, public

awareness and monitoring of international obligations. Inclusive of combination of this component with the Halon Banking Program, USD 1,829,781 has been allocated to a restructured Technical Assistance Program agreed with the World Bank project team in February 2000. Overall the basic intent and emphasis has been maintained but savings have been made through greater utilization of local rather than foreign consulting support. Five focal areas are to be funded. These are: i) technical and financial support resources for phase-out sub-project identification, preparation and implementation; ii) institutional strengthening study work primarily related to organization and monitoring of the security and halon banking systems being established; iii) continuation of support for the Inter-Agency Commission for Ozone Layer Protection and SCEP in the administration of the Country Program and international obligations; iv) a public awareness program; and v) regulatory development and enforcement training. Currently, a number of these assignments are being contracted and the program will be fully under implementation by September 2000.

Attachment 1 provides an overall comparative summary of the originally approved third tranche work program and the amended work program described above.

ODS Consumption Phase-Out Sub-Projects

The Centre for Preparation and Implementation of International Projects on Technical Assistance (CPPI) has completed the appraisal of the eleven ODS consumption sub-projects proposed for the third tranche. The sub-project specific appraisal reports, documented in a form consistent with that utilized by the World Bank in submissions to the GEF for the first and second tranches are contained in Attachment 3 of this submission. These reports have been prepared by CPPI with the assistance of IBRD project team local and international experts.

The appraised portfolio covers all remaining major ODS consumption identified in all sectors within economically viable enterprises. The appraised amount of ODS to be phased out is 783MT ODP and the latent consumption capacity to be eliminated is estimated to be 3,438 MT ODP. The specific sub-projects include one in the consumer aerosol sector (JSC «TiL»), one in the medical aerosol sector (JSC «Altaivitaminy»), one in the domestic refrigeration sector (JSC «Iceberg»), two in the commercial refrigeration sector (JSC «Iskra», JSC «Kholodmash»), three in the refrigeration servicing sector (JSC «Combine Torgtekhnik», JSC «Pyatigorskortorgtekhnik», JSC «Kemerovortorgtekhnik»), and three in the non-insulating foam sector (JSC «Plastic», JSC «Stroidetal», JSC «Nelidovo Plastics Plant»).

In undertaking the appraisal of these sub-projects, CPPI has specifically addressed the various issues identified in the May 1999 submission document (Paragraph 13) and the written comments made by GEF Council members (Compilation of Technical Comments Submitted by GEF Council Members on the Approved Work Program in May 1999). These are discussed in detail as applicable within each appraisal report and in the case of

GEF Council comments, Attachment 2 provides a specific response to each question raised. In addressing the various issues raised in the original submission, I would particularly highlight our intention to apply conditionality to Sub-Grant Agreements covering the application of tax exemptions and assurance that enterprises have made appropriate arrangements for transitional ODS supply from licensed ODS Banks. I would also note that all technologies chosen are consistent with practices under the Montreal Protocol Multilateral Fund as reflected by the STAP/OORG clearances received. Furthermore in relation to the refrigeration sub-projects, it is our position that the technologies chosen offer the best available practical options in relation to consistency with the GEF Operational Strategy and with one exception are consistent with those previously accepted for funding by the GEF in the region. The one exception, involving the use of a transitional substance as a blowing foam agent on an interim basis at JSC «Iceberg», is necessary because of the unique location of this manufacturing facility and unacceptability of flammable alternatives for public safety reasons.

In conclusion, I trust this submission meets with your approval and we request that it be expeditiously processed such that implementation of this important initiative can proceed quickly. In this regard, we appreciate the Bank's support and cooperation to date in implementing this important global environmental initiative and look forward to working with you to complete it.

Yours truly,

Vassily Tselikov

CPPI Deputy General Director,
Executive Director on ODS Consumption
and Production Phase-out Projects

Attachment 1

Proposed Third Tranche Work Program GEF Funding Re-Allocation and Comparison of Estimated Enterprise Co-Financing of Investment Costs and Incremental Operating Costs (Savings) –US\$

Work Program Component	Sector	May 1999 Work Program		Revised Work Program	
		GEF	Enterprise	GEF	Enterprise
A) ODS Consumption Sub-projects:					
- JSC «TiL»	Aerosol	724,000	119,532	724,000	63,031
- JSC «Altaivitaminy»	Medical Aerosol	631,400	335,500	631,400	563,177
- JSC «Iceberg»	Domestic Refrigeration	690,800	401,407	690,800	563,040
- JSC «Iskra»	Commercial Refrigeration	293,500	231,457	293,000	217,013
- JSC «Kholodmash»	Commercial Refrigeration	2,255,000	112,373	2,255,000	884,234
- Estimated enterprise financing of companion R600a/HFC-134a small compressor plant			51,200,000		51,200,000
- Combine Torgtekhnika	Refrigeration Servicing	2,239,000	2,785,669	2,237,177	1,734,593
- Pyatigorsk Torgtekhnika	Refrigeration Servicing	1,144,400	419,065	1,144,056	280,535
- Kemerovo Torgtekhnika	Refrigeration Servicing	1,704,000	2,319,992	1,700,105	820,949
- JSC «Plastik»	Foam	2,169,000	28,177	2,740,100	229,869
- JSC «Stroidetal»	Foam	786,700	11,155	1,082,000	97
- JSC «Nelidovo Plastics Plant»	Foam	655,000	200,897	1,138,500	10,942
- Design Bureau «Salut»	Solvents	450,000	204,100	0	0
- Miass Machine Building	Solvents	63,000	166,550	0	0
Sub-Total		13,805,800	58,535,874	14,636,138	56,567,480
B) ODS Production Closure Support					
		8,500,000	N/A	8,500,000	N/A
C) Residual ODS Phase-Out Management					
- Small Grant Program (Note 1)		5,577,500	Note 3	1,353,395	Note 3
- Halon Banking		1,500,000	N/A	0	N/A
- Technical Assistance:		1,300,000	N/A	1,829,781	N/A
Sub-Total		8,377,500		3,183,176	
CPPI Incremental Operating Cost		586,674	N/A	479,686	N/A
Third Tranche Total (Note 1)		31,269,974	58,535,874	26,799,000	56,567,480

Attachment 2

Response to Technical Comments Submitted by GEF Council Members on the Work Program Approved in May 1999

The following provides a response to the questions and comments from GEF Council members as recorded in the document «Compilation of Technical Comments Submitted by Council Members on the Work Program Approved in May 1999».

Comments from France

1. Consumption Data for Second Tranche Sub-Projects: It is assumed that the inconsistencies of concern relate to consumption data for three of the second tranche sub-projects currently under implementation. The data in question relates to 1997 consumption as reported in the Second Tranche Project Document (GEF/World Bank Report No. 17391-RU, February 1998) and the Third Tranche Project Document (GEF/World Bank Report No. 18973-RU, May 1999). The differences are explained by the use of estimated consumption in the earlier report and actual document consumption the May 1999 report.
2. Technical Assistance Funding: The third tranche technical assistance funding for institutional strengthening represents a continuation of the activities funded under the first and second tranches rather than a duplication of them. The work in this area funded under the first two tranches was directed primarily to obtaining international experience, building the basic regulatory control framework for ODS, updating the Country Program, and establishing sound capacity with respect to reporting and monitoring international obligations. The third tranche technical assistance continues the support of capacity to meet and expand compliance with international obligations. It also is directed to development of regulatory control tools and enforcement capacity at a more detailed level, consistent with the priority of residual ODS phase-out management after the closure of production and substantive compliance with London Amendment obligations.
3. Scope of the Special Initiative: This question was responded to in the previous submission for CEO endorsement covering the ODS production closure support. In fact, the scope of the Special Initiative is more comprehensive than originally proposed in that now it also encompasses the closure of halon production facilities.

Comments from Netherlands

1. Tax Exemption Status: The Russian Federation has established an administrative process by which beneficiary enterprises can claim exemptions or refunds for VAT and import duties. These measures are adopted under the Resolution of the

Government of the Russian Federation # 1046 dated September 17, 1999 and the Federal Law # 95-FZ dated May 4, 1999. This mechanism has been successfully demonstrated for sub-projects in the first and second tranches currently under implementation and will apply to the ODS consumption phase-out sub-projects proposed for the third tranche.

2. Appraisal Documentation: Consistent with the direction of the Council in its approval of the work program, sub-project specific appraisal reports have been prepared and are contained in Attachment 3 of this submission. Each contains the requested analysis of sustainability and risks.

Comments from Switzerland

1. Implementation Schedules: The appraisal reports contained in Attachment 3 include the implementation schedules for each ODS consumption phase-out sub-project. These require from 12 to 20 months for phase-out activities to be completed after the assumed GEF approval date of May 2000. The completion of the last sub-project is targeted for early 2002. These implementation periods are considered to be realistic based on the views of enterprises, the local and foreign technical experts involved in appraisal and the STAP/OORG reviewers. They are also consistent with comparable sub-projects being implemented in the first and second tranches and with other GEF ODS phase-out projects in the region.
2. Banning of ODS Production, New Consumption, Imports and Exports: Government resolutions are now in effect banning imports and exports effective March 1, 2000 and ODS production effective July 1, 2000. This effectively bans any initiation of new consumption after July 1, 2000. Existing residual consumers are permitted to continue the use of ODS after that date on the basis of licenses issued by SCEP, until they complete phase-out activities.
3. Financial Risks to Beneficiary Enterprises of ODS Supply Constraints after July 2000: Those major consumers proposed to receive funding in the third tranche for phase-out investments will be required to demonstrate that they have access to sufficient ODS after July 1, 2000 to maintain operation until completion of their respective sub-projects. This may involve pre-purchasing stocks or making contractual arrangements for supply from commercial banks licensed by SCEP. The demonstration of the availability of transitional ODS supplies will be a condition of sub-grant effectiveness. The costs of transitional supplies have been incorporated into the enterprise financial viability assessments undertaken during appraisal and reported for each enterprise in Attachment 3.
4. Impact of Russia's Overall Economic Situation: The impact of the August 1998 financial crisis and subsequent developments in Russia's economic situation have generally improved the prospects of beneficiary enterprises. Most are manufacturers of consumer products or commercial equipment that has become more competitive in relation to imports with the devaluation of the ruble. As is

noted in a number of the enterprise appraisal reports this has resulted in an increase in production and ODS consumption in 1999. The principal negative implication of the current economic situation is the diminished liquidity of enterprises generally and increased dependence on barter arrangements. This has been considered in the appraisal financial viability assessments documented for each beneficiary enterprise and where appropriate specific conditionality to sub-grant agreements will be applied.

5. Technology Choice for Insulating Foam Blowing at JSC «Iceberg»: The selection of a transitional substance (HCFC-141b) for insulating foam blowing is made on the basis that the accepted alternative, namely flammable cyclopentane, has been expressly disallowed from use in the quantities required by fire protection and environmental authorities at this location. This decision is based on the plant's close proximity to residential development and the public safety risk involved. No restriction in either the commercial or domestic refrigeration sector exists in Russia on the use of foam materials blown with flammable substance in the final product. The choice of HCFC-141b as an interim technology is considered legitimate in this situation, noting that it has been widely accepted in Montreal Protocol Multi-Lateral Fund projects in Article 5 countries and is a logical stepping stone to non-flammable, zero ODP blowing agents that are becoming available. In this regard, we note that HFC-245f is gaining acceptance in North American as a replacement for HCFC-141b. In summary, it is the position of the Russian Federation that the proposed technology choice is the only one currently available for phase-out of CFC-11 at this particular enterprise. We therefore are requesting that the GEF Council to consider this as legitimate special case for sub-grant funding, noting that in not doing so the only phase-out opportunity in this sector will not be undertaken.

6. Technology Choice for Refrigerant at JSC «Iceberg»: The enterprise views the selection of HFC-134a as the refrigerant replacement for CFC-12 as its least cost and most practical option at this time. It is consistent with the technology selection for other GEF funded phase-out sub-projects in the region (Ukraine, Belarus, Bulgaria, Uzbekistan and Azerbaijan). Having said this, it should be noted that the constraints posed by current Russian regulatory standards are slated for review as a number of domestic manufacturers look toward the possible introduction of low GWP refrigerant options in the future. However, these standards remain an immediate barrier to product certification as well as posing additional costs for re-design. It is likely that either the regulatory or financial constrains could be overcome in the time available for ODS phase-out. Similarly, it is also acknowledged that, while the unique location of this facility also poses a constraint as noted above, this could potentially be overcome in light of the relatively small volumes of flammable refrigerant that would be required and with additional fire protection investments. Here again the time available and costs would be a barrier. In relation to the comment respecting the availability of R600a compressors from JSC «Kholodmash» the initial production from this plant is

based on HFC-134a refrigerants since this is what all potential customers in the region would choose to purchase at this time. However, the partial license from Zanuzzi would allow R600a compressors to be produced if and when a market develops for them. It should also be clarified that this facility has no direct investment from Zanuzzi, but rather is an investment by JSC «Kholodmash», financed by the German Government.

7. Technology Selection for Refrigerant's at JSC «Iskra»: While acknowledging the desirability of low GWP refrigerants from the perspective of consistency with the GEF Operational Strategy and its potential to serve as a »drop-in« technology in some cases, the selection of HFC-134a and HFC-404a refrigerants is considered the best option in this application. Our understanding and that of the international expert undertaking appraisal of this sub-project is that the application of propane/isobutane refrigerant technology is largely restricted to small hermetically contained refrigerant charges, such as used in domestic refrigeration applications. The higher charges in commercial equipment, the historically higher leakage rates in this type of equipment, and restrictions on its placement in areas of public access limit the application of this technology in the commercial sector. Some specific types of commercial refrigerating appliances are now using hydrocarbons as refrigerant, but this is limited to unitary (plug-in type) appliances, which are comparable to large domestic refrigerators, or larger indirect systems where all refrigerant containing parts are located in a separate machinery rooms or outdoor. In this particular case, where refrigerant charges are in the range of 5 to 25 kg, hydrocarbon refrigerants have not found application. Similarly, many of the compressors involved are of the open-type, which have higher leakage rates making hydrocarbons less desirable. It is also noted that this technology choice is universally consistent with other GEF funded sub-projects under implementation both in Russia and Ukraine.
8. Funding of Compressor Production: The two sub-projects that this comment is presumed to apply to, JSC «Iskra» and JSC «Kholodmash, manufacturer complete condensing units using their own compressors. Since the condensing units are sold fully charged with refrigerant, these enterprises are a legitimate initial consumer of ODS, as distinct from a manufacturer of compressors that are sold as such to manufacturers of condensing units or complete appliances.
9. Cost Effectiveness of Refrigeration Servicing: The reviewers comments respecting the effectiveness of recovery and reclaim schemes generally as well as the linkage to CFC-12 pricing are acknowledged and supported. For this reason the three servicing sub-projects proposed have included the analysis of an economic basis for their operation based on a threshold price at which the virgin CFC-12 must be. It also makes provision for the servicing technicians themselves have some economic incentive to physically collect material for reclaim and re-use. It is noted that the design of this scheme has drawn on the positive experience with such schemes funded by the GEF in several Central European Countries. It should also be noted that these sub-projects use

regional service enterprises as a base, something that provides access to substantial compressor refurbishment capacity and allows the sub-projects to also provide conversion capacity, thereby accelerating phase-out. We would note that the refrigeration servicing sector remains the largest area of residual ODS demand in Russia and could present a significant latent market for illegal ODS. Finally, in the absence of this kind of capacity, the stock of critical refrigeration equipment in applications such as food distribution could decline as long as the affordability of replacement equipment is low, with resulting social and economic hardship.

Attachment 3

ODS Consumption Sub-Project Appraisal Reports

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