

Proposal for PDF Block C Grant

① Ratification of London Am
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② Submission of info on ODS
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Country	:	Republic of Belarus
Focal Area	:	Phaseout of Ozone Depleting Substances
Project Title	:	Belarus: Ozone Depleting Substances Phaseout Project
Project Costs	:	US\$14.7 million
Financing Plan	:	GEF: US\$7.4 million Local: US\$7.3 million
Requesting/Executing Agency	:	World Bank
National Counterpart Agency	:	Belarus Ministry of Natural Resources and Environmental Protection
Block	:	C
Amount of PDF Funding Requested	:	USD\$210,000
Co-Funding	:	Government of Belarus: \$6,000 Participating Enterprises: \$20,000
Block A or B Grant	:	No
Convention Ratification	:	Montreal Protocol: October, 1988

Eligibility/Sector Background

1. Belarus ratified the Montreal Protocol in October 1988, and the London Amendment in February, 1996. Based on its anticipated ratification status as a developed country under the Montreal Protocol, Belarus' obligations for Ozone Depleting Substances (ODS) phaseout will be in accordance with the accelerated developed country schedule¹. It will also assume obligations to contribute to the Multilateral Fund of the Montreal Protocol (MFMP). An ODS Country Program and national phaseout strategy have been adopted by the Government and accepted by Parties to the Montreal Protocol as evidence of the country's commitment. Belarus has acknowledged that it will be unable to meet the developed country phaseout schedule due to the current economic situation without external assistance, and has therefore requested financial assistance of the Global Environmental Facility (GEF). A GEF project proposal representing Belarus' one-time request for financial assistance for ODS phaseout investments, has been cleared by the GEFOPS committee in February 1996, and will be submitted to the GEF Council in April, 1996.

\$7.4 million

¹/ Under the Copenhagen Amendment the phaseout dates began in January 1994 with the majority of chemicals to be phased out by January, 1996. Belarus has acknowledged that it cannot achieve this schedule. Phaseout under the London Amendment begins in year 2000.

2. No ODS material is produced in Belarus. It is dependent on supplies from major producers in Russia, currently scheduled to discontinue production by year 2000 by virtue of Russia's commitments under the Montreal Protocol. GEF assistance to ODS consuming enterprises in Belarus would allow them to make the transition to non-ODS materials in a gradual, planned manner and avoid a later crisis when supplies are cut off. Early reduction of ODS consumption will also reduce demand for ODS materials from a black market supplier. In 1994, Belarus consumed 1,043 tons of ODS, as compared with 2,773 tons in 1986. Earlier reductions during this period can be attributed to the conversion of aerosol manufacturers to hydrocarbon propellants, while more recent declines reflect difficult economic conditions and limited phaseout investments in the refrigeration sector. The refrigeration sector remains the dominant consumer of ODS, accounting for approximately 80% of use. The solvent sector accounts for 13% of consumption, while fire protection accounts for 2%. Residual aerosol sector use, largely for medical applications, account for the remainder.

Description of Project

3. The project targets priority consumption phaseout activities in the refrigeration and solvent sectors. It also provides modest technical assistance at both the institutional and enterprise levels to facilitate implementation of the ODS Country Program, and technology transfer for phaseout in the fire protection sector. It is structured as a framework project consisting of a series of seven enterprise specific technology conversion investment sub-projects and two technical assistance sub-components. The technology conversion component consists of two sub-projects in the refrigeration manufacturing sector, one sub-project in the industrial/commercial refrigeration servicing sector, and four sub-projects in the solvent sector. The technical assistance component consists of two sub-components addressing (i) transfer of technology and training for conversion in the fire protection sector and (ii) institutional strengthening. The Danish Government has provided resources to assist Belarus in preparing the project to a level acceptable for submission for GEF approval. Preparation to date includes detailed technology and institutional strengthening proposals and associated cost analyses.

Justification for GEF Financing

4. Belarus is a significant consumer of ODS material, but lacks the financial capacity to undertake comprehensive phaseout in accordance with its obligations under the Montreal Protocol. As a developed country signatory to the Montreal Protocol, it is not eligible for support from the Montreal Protocol Multilateral Fund but is eligible for GEF funding according to Article 9(b) of the Instrument for the Establishment of the Restructured Global Environmental Facility. The proposed project is consistent with the GEF Operational Strategy for ODS Phaseout. The Operational Strategy endorses working with a range of enterprise specific sub-projects that offer substantive ODS phaseout gains, and for which the beneficiary enterprise would not be able to obtain sufficient financing from commercial sources. Within these sub-projects, grant funding is limited to eligible incremental investment costs while the enterprises are responsible for financing the balance from their own resources or loans.

Description of Proposed Activities

5. The PDF grant would provide funding needed to finalize preparation and processing of project activities. The Danish Government has contributed approximately \$200,000 of bilateral funds to assist Belarus with preparation of the Country Program and identification of key investment proposals for ODS phaseout. These funds have also been used to prepare the project to its current stage adequate for clearing OORG (STAP) review and subsequent GEF Council Approval, going beyond the scope of originally intended activities. Funding to complete the final stages of project preparation and processing is critically needed for Belarus to meet their revised phaseout schedule targeted at meeting the London Amendment schedule (year 2000). Belarus' revised schedule assumes investment resources are committed during 1996. This PDF grant would provide money to continue project preparation consistent with Block C criteria. Belarus has requested that the Bank execute this PDF grant in light of the lack of a functioning operational unit to undertake the proposed activities. A proposed activity under the grant is to develop an acceptable institutional framework to begin functioning at a minimal level so that grant (project preparation) activities can be coordinated, and to assess how well it will function for project implementation.

6. The PDF grant being requested under this proposal would support the completion of project and program preparation through project appraisal and final documentation for approval. The following key activities are required to complete project preparation and are proposed to be funded through a Block C PDF grant:

- ✓ (a) Financial Viability Assessment of Enterprises with proposed investments.
- ✓ (b) Further Definition of Institutional Arrangements for Project Implementation including financial arrangements.
- ✓ (c) Preparation of final project documents (from participating enterprises) required for project appraisal.

7. A financial viability analysis for each participating enterprise would be performed by consultants familiar with the Former Soviet Union accounting system to evaluate overall enterprise performance as a basis for project appraisal. Information to be collected from enterprises for evaluation includes: balance sheets; income statements; production and sales volumes; markets and international pricing of goods; subsidies from the state budget; records on worker layoffs, unpaid salaries and reduced work hours; financial costs for long-term debts partially serviced by state enterprises; and government policy on long-term debt of state

^{2/} Belarus has already made a formal acknowledgment that it is unable to meet the phaseout deadlines under the Copenhagen Amendment (which had a January, 1996 deadline for some chemicals) due to economic hardships.

enterprises. The World Bank would make the final determination on enterprises' viability using the consultant findings, before or at project appraisal.

8. Institutional arrangements for the project still require significant clarification to be acceptable for project appraisal based on Bank experience in Belarus. The Ministry of Natural Resources and Environment, although a logical implementing agency, currently has minimal capabilities to take on responsibilities for the project implementation. This is generally the case with most Ministries in Belarus which have severe budget constraints, underpaid staff, and poor working conditions. Local financial institutions also do not have adequate training to handle the administrative aspects of project management on behalf of a project implementation unit (PIU). An expected outcome of further institutional studies would be to develop a recommended institutional arrangement through country discussions, data collection, and testing. Preliminary testing of institutional arrangements on a pilot level as part of preparation is critical to the success of the project, based on lessons learned from the World Bank's difficulties implementing other projects in Belarus. Establishment of a preliminary institutional framework before project appraisal would generate greater project ownership and help lay the foundation for more effective project implementation.

9. It is anticipated that experienced consultants would work with Ministry and enterprise staff to prepare documentation required for project appraisal through workshops and individual training. Technical assistance to enterprises and the PIU is needed due to a lack of familiarity with World Bank and GEF policies. Targeted activities would include bidding document (including specification) preparation, identification of eligible vendors, preparation of documents to meet environmental assessment requirements, and development of project accounting systems. Training in World Bank procurement and disbursement requirements would be provided as part of this assistance, through a procurement adviser trained in Bank procedures and, if available, through a periodically held World Bank taught course on procurement in the Region. Training on evolving technology changes would also be provided as required to enable enterprises to make informed decisions on available technology selection. Several sub-projects were pre appraised prior to the approval of the GEF ODS Phaseout Operational Strategy. Consequently, the choice of technologies will be subject to reconsideration in line with relevant provisions of the Strategy, particularly those on synergism during appraisal.

Outputs

10. The following outputs are proposed for each activity:

(a) Financial Viability Assessment- Outputs for similar projects have resulted in an approximately 20-30 page report per enterprise concluding with a recommendation as to whether an enterprise is financially viable or not. The World Bank would review and analyze the consultant report and make the final determination on viability. Only financially viable firms would receive support under the project.

(b) **Institutional Arrangements**- An institutional arrangement for project implementation would be recommended based on country discussions, data collection, and testing. A project implementation plan (PIP) acceptable for project appraisal would also be developed under this activity.

(c) **Final Preparation of Sub-projects for Appraisal** - Outputs produced under this activity would include sub project procurement plans, bidding documents, environmental reports, and project accounting plans by the PIU and beneficiary enterprises.

Timetable

11. It is anticipated that the majority of the PDF grant would be disbursed in the period between April and November, 1996.

Budget

12. The following budget has been estimated for the proposed activities:

Activity	Cost Allocation (US\$)*			TOTAL
	GEF (PDF Block C)	Beneficiary Enterprises	Government of Belarus	
Financial Viability Analysis	\$60,000	\$8,000	\$2,000	\$70,000
Institutional Arrangements	\$50,000	\$2,000	\$2,000	\$54,000
Appraisal Documentation Preparation	\$100,000	\$10,000	\$2,000	\$112,000
Total	\$210,000	\$20,000	\$6,000	\$236,000

* Includes the cost of international and local travel

Contributions from the beneficiary enterprises and the Government of Belarus are estimated based on expected level of staff involvement in these activities using local costs. Contributions would be through in-kind staff time, office space, and translation.

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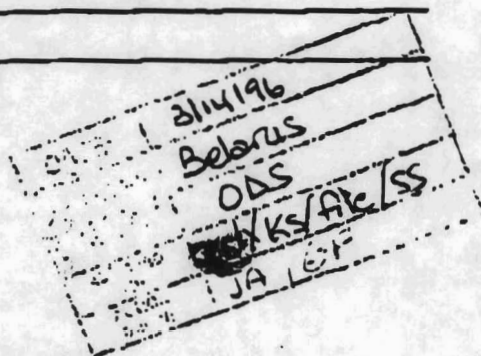
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от



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Dear Ms Söderström,

Karin Shepardson

The Ministry of Natural Resources and Environmental Protection of the Republic of Belarus on behalf of the Government of the Republic of Belarus invites your attention to the resolute measures adopted by our Government to implement the obligation under the Montreal Protocol on Substances that Deplete the Ozone Layer in accordance with the London Amendment.

The Government of the Republic of Belarus adopted the following documents connected to these matters :

1. The Decree 198 of the Council of Ministers of the USSR of 23 April 1991 " On Adoption the Adjustments and Amendments to the Montreal Protocol on Substances that Deplete the Ozone Layer by the USSR ".
2. The Decree 429 of the Council of Ministers of the Republic of Belarus of 2 June 1993 "On Urgent Measures on Implementation of the International Documents in the Field of the Ozone Layer Protection ".
3. The Decree 778r of the Council of Ministers of the Republic of Belarus of 19 August 1993 " On Establishment of the Interagency Commission for Implementation of the Obligations under the Vienna Convention and the Montreal Protocol and Development of the Country Programme ".
4. The Decree 115 of the Council of Ministers of the Republic of Belarus of 19 February 1996 " On Additional Measures for Phase-Out of Ozone Depleting Substances in

1996 " On Additional Measures for Phase-Out of Ozone Depleting Substances
Belarus with Adoption of the Amendments " .

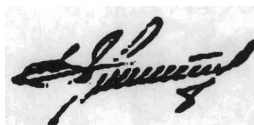
Due to the difficult economical situation at present , the Republic of Belarus is unable to implement its obligation under the Montreal Protocol without external assistance . As you can remind it was planned to establish an Ozone Office in the Ministry of Natural Resources and Environmental Protection with aim at preparation and development of projects connected to the ozone layer protection .

We would be most grateful to you if you could kindly provide us with the financial assistance of 260,000 dollars US for fulfilment of this project.

We are appreciated to find out that the World Bank is responsible for implementation of this Grant .

We look forward to hearing from you soon and remain

Yours sincerely



Mikhail Rusy,
Minister