

CONFORMED COPY

GEF TRUST FUND TF028314

Global Environment Facility Trust
Fund Grant Agreement

(Ozone Depleting Substances Consumption Phase-out Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as Implementing Agency of the
Global Environment Facility

Dated September 29, 1996

GEF TRUST FUND NUMBER TF028314

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated September 29, 1996, between RUSSIAN FEDERATION (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the Global Environment Facility Trust Fund (GET Trust Fund) by certain members of the Bank, as participants of the GEF.

WHEREAS: (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements are continued in place on the basis set forth in Resolution No. 94-2 (Resolution No. 94-2) of the Executive Directors of the Bank, dated May 24, 1995, establishing the GEF Trust Fund;

(C) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the GET Trust Fund in the financing of the Project, and the Bank has determined that such assistance would be in accordance with Resolution No. 94-2;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant (the Grant) to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i) and (k), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01, 12.02, 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

- (i) a new paragraph is added at the end of Section 2.01 to read as follows: "21. 'Special Drawing Rights' and 'SDR' mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
- (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the use of such term in the second sentence of Section 5.01 thereof (as herein modified), means the Bank, acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;
- (iii) the term "Borrower", wherever used in the General Conditions, means the Recipient;
- (iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
- (v) the term "Loan" and "loan" wherever used in the General Conditions, means the Grant;
- (vi) the term "Loan Account" wherever used in the General Conditions, means the Grant Account;
- (vii) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Recipient shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and

- (viii) a new sub-paragraph is added after sub-paragraph (k) in Section 6.02 of the General Conditions, as follows: "(l) An extraordinary

situation shall have arisen in which any further disbursement under the Grant would exceed the resources available for disbursement from the GEF."

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Country Program" means the program for the phase-out of ODS, adopted by the Recipient on May 24, 1995, through Government of Russia Resolution No. 526, and submitted to the Parties to the Vienna Convention on Ozone Layer Protection and Montreal Protocol on ODS under a letter dated May 26, 1995;

(b) "CPPI" means the Recipient's Center for Project Preparation and Implementation, a non-commercial organization founded by the Ministry of Environmental Protection and Natural Resources pursuant to Order No. 247, dated December 2, 1993, and duly registered on December 30, 1993, by the Division of Registration on Noncommercial Organizations, Department of Social and Political Relations, Municipal Government of Moscow, or any successor thereto;

(c) "GEF Council" means the Council of the Global Environmental Facility referred to in Article 11 of the 1994 Instrument for the Establishment of the Restructured Global Environmental Facility, or any successor thereto

(d) "Inter-Agency Commission" means the commission referred to in paragraph 2 of Schedule 5 to this Agreement;

(e) "JSC Arnest" means Arnest, a Russian private joint stock company, located and registered in the city of Nevinnomyssk, Stavropol Krai, pursuant to Decision No. 897 of the Head of the City Administration, dated November 11, 1992, as evidenced by Certification of Registration No. 000590, or any successor thereto;

(f) "JSC Krasnoyarsk" means Krasnoyarsk Refrigerator Plant "Biryusa," a Russian private joint stock company located and registered in the city of Krasnoyarsk, Krasnoyarsk Krai, pursuant to Decision No. 304 of the Head of the City Administration, dated December 8, 1993, or any successor thereto;

(g) "MOE" means the Ministry of Economy of the Russian Federation, or any successor thereto;

(h) "MOF" means the Ministry of Finance of the Russian Federation, or any successor thereto;

(i) "NPAF Supervisory Board" means the supervisory board of the National Pollution Abatement Facility, to be established by the SCEP, MOF, and MOE pursuant to Government of Russia Resolution No. 808, dated August 11, 1995, or any successor thereto;

(j) "ODS" means ozone depleting substance or substances;

(k) "ODS PIUs" means the project implementation units referred to in paragraph 3 (e) of Schedule 5 to this Agreement;

(l) "Participating Enterprises" means JSC Arnest, JSC Krasnoyarsk, and other enterprises selected by the Recipient in accordance with this Agreement;

(m) "Project Implementation Agreement" means the agreement referred to in paragraph 3 (a) of Schedule 5 to this Agreement, as such agreement may be amended from time to time;

(n) "SCEP" means the Recipient's State Committee for Environmental Protection, or any successor thereto;

(o) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(p) "Sub-grant" means a grant from the Recipient to a Participating Enterprise made or proposed to be made pursuant to a Sub-grant Agreement;

(q) "Sub-grant Agreement" means an agreement between the Recipient and a Participating Enterprise, entered into pursuant to paragraph 3 (c) of Schedule 5 to this Agreement, as such agreement may be amended from time to time; and

(r) "Sub-project" means an ODS phase-out project referred to in Parts A and B of Schedule 2 to this Agreement, and selected and approved for financing pursuant to paragraph 3 (b) of Schedule 5 to this Agreement.

ARTICLE II

The Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Grant in an amount in various currencies equivalent to forty one million two hundred thousand Special Drawing Rights (SDR 41,200,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for carrying out the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachments. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

Section 2.04. The Bank shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds from the GET Trust Fund for the purpose of the Project.

Section 2.05. The CPPI is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through the SCEP, Inter-Agency Commission and the CPPI, with due diligence and efficiency and in conformity with appropriate administrative, engineering and financial practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provision of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement;

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Recipient shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Grant.

(b) The Recipient shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Grant, or the performance by the Recipient of its obligations under this Agreement.

Section 3.04. Without limitation upon the applicable provisions of Section 9.07 of the General Conditions, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Recipient on said plan.

Section 3.05. The Recipient shall take all measures necessary to ensure that each Participating Enterprise complies with all relevant environmental requirements of the Recipient for any ODS phase-out activity to be carried out under the Project, including approval of environmental impact assessments of each Sub-project by the SCEP prior to the implementation of each such Sub-project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain and cause the CPPI to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments and agencies of the Recipient and the CPPI responsible for carrying out the Project or any part thereof.

(b) The Recipient shall and shall cause the CPPI to:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall or shall cause the CPPI to:

(i) maintain in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effectiveness; Termination

Section 5.01. This Agreement shall become effective upon its execution by the parties.

Section 5.02. This Agreement shall continue in effect until the Grant has been

fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. Except as provided in Section 2.05 of this Agreement, the Chairman of the State Committee for Environmental Protection is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

State Committee for Environmental Protection
B. Gruzinskaya Street, 4/6
Moscow, 123812
Russian Federation

Telex:

411 692 BOREI

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Washington, D.C. as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ Yuli Vorontsov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as Implementing Agency of the Global Environment Facility

By /s/ Johannes Linn

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods:		
(a) for Parts A.1, B.1 and C.1 of the Project	4,870,000	100% of foreign expenditures,
(b) for Parts A.2, B.2 and C.2 of the Project	33,420,000	100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(2) Works:		
(a) for Parts A.1 and B.1 of the Project	350,000	80% of local expenditures
(b) for Parts A.2 and B.2 of the Project	490,000	80% of local expenditures
(3) Consultants' Services:		
(a) for Parts A.1, B.1 and C.1 of the Project	550,000	100%
(b) for Parts A.2, B.2 and C.2 of the Project	350,000	100%
(4) CPPI Agency Fee:		
(a) under Part C.1 of the Project	130,000	100%
(b) under Part C.2 of the Project	1,040,000	100%
TOTAL	41,200,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods, works or services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods, works or services supplied from the territory of the Recipient; and

(c) the term "CPPI Agency Fee" means an agency fee referred to in paragraph 3 (a) of Schedule 5 to this Agreement, due and payable by the Recipient to the CPPI.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 4,100,000 may be made in respect of Categories (1), (2), (3) and (4) on account of payments made for expenditures before that date but after July 31, 1995;

(b) payments made for expenditures in respect of Categories (1) and (2) of this Schedule, until: (i) the Sub-project in respect of which disbursement is sought has been approved by the Bank and the GEF Council; and (ii) the Sub-grant Agreement for such a Sub-project has been entered into by the CPPI, on behalf of the Recipient, and the concerned Participating Enterprise in accordance with the provisions of paragraph 3 (c) of Schedule 5 of this Agreement.

4. If the Bank shall have determined at any time that any payment made from the

Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

5. The Bank may permit withdrawals from the Grant Account to be made on the basis of statements of expenditure for: (i) expenditures for goods and works under contracts not exceeding \$300,000 equivalent; and (ii) expenditures for consultants' services under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in a phase-out of ODS consumption, in a manner that is consistent with international efforts and standards and that results in minimum of economic dislocation.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time to achieve such objectives:

Part A: ODS Consumption Phase-Out Activities in the Aerosol Sector

1. Conversion of JSC Arnest's aerosol technology to permit the usage of hydrocarbon aerosol propellant instead of chlorofluorocarbon, through the provision of goods, works and services.

2. Undertaking of other Sub-projects regarding the conversion of aerosol technology to permit the usage of hydrocarbon or other acceptable ODS substitute materials in place of chlorofluorocarbon, or to convert to other spray on non-spray technologies which do not rely on ODS, through the provision of goods, works and services.

Part B: ODS Consumption Phase-Out Activities in the Refrigeration Sector

1. Conversion of JSC Krasnoyarsk's technology to permit the usage of propane/butane refrigerant mixture in place of chlorofluorocarbon-12 in domestic refrigerators and freezers produced by JSC Krasnoyarsk, through the provision of goods, works and services.

2. Undertaking of other Sub-projects regarding the conversion of technology to permit the usage of ODS substitute materials in place of chlorofluorocarbons as refrigerants and foam blowing agents in the manufacture of domestic commercial and industrial refrigerators and freezers, and development of facilities for recovery and recycling of ODS from refrigerator and freezer servicing, through the provision of goods, works and services.

Part C: Institutional Strengthening, Project Management and Implementation

1. Provision of technical assistance for project preparation and implementation, and institutional strengthening, and of financial compensation to the CPPI for implementation and monitoring of Parts A.1 and B.1 of the Project.

2. Provision of technical assistance for project preparation and implementation, and institutional strengthening, and of financial compensation to the CPPI for implementing and monitoring Parts A.2 and B.2 of the Project.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits," published by the

Bank in January 1995 and revised in January 1996 (the Guidelines), and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$2,000,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$32,300,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,400,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the sub-project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$2,000,000 or more, the first contract for works procured by each Participating Enterprise under national competitive bidding procedures, and the first two contracts for goods procured under international shopping and national shopping procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance

with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, 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 consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 6,860,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to, or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank

from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories for the Project shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank (A) provide such additional evidence as the Bank may request, or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 5

Implementation Program

1. The SCEP shall be responsible for overall Project coordination and supervision.

2. An interagency commission (Inter-Agency Commission), established pursuant to Government of Russia Resolution No. 875 "On Approval of Resolution on Inter-Agency Commission Within the MEPNR for Protection of the Ozone Layer, and Staffing of Such

Commission" (dated August 30, 1993), shall be responsible for coordinating the implementation of the Project with the Recipient's agencies within the framework of the Country Program.

3. The SCEP shall:

(a) enter into a project implementation agreement (Project Implementation Agreement) with the CPPI, under terms and conditions satisfactory to the Bank, including a provision regarding an agency fee (CPPI Agency Fee) of up to three percent (3%) of the amount disbursed under Sub-grant Agreements;

(b) cause the CPPI to appraise and select Sub-projects and ensure that Sub-projects are approved in accordance with the procedures and eligibility criteria satisfactory to the Bank, which shall include the procedures and eligibility criteria set forth in Parts A and B, respectively, of Schedule 6 to this Agreement;

(c) make available, through the CPPI, a part of the proceeds of the Grant as sub-grants (Sub-Grants) to Participating Enterprises to finance Sub-projects, under sub-grant agreements (Sub-grant Agreements) to be entered into between the CPPI and each Participating Enterprise, under terms and conditions satisfactory to the Bank, which shall include the terms and conditions set forth in Part C of Schedule 6 to this Agreement;

(d) exercise its rights and cause the CPPI to exercise its rights under the Project Implementation Agreement and each Sub-grant Agreement in such manner as to protect the interests of the Recipient, the Bank and the CPPI and to accomplish the purposes of the Grant, and, except as the Bank shall otherwise agree, the Recipient shall not, and shall not allow the CPPI to, assign, amend, abrogate or waive the Project Implementation Agreement or any Sub-grant Agreement, or any provision thereof;

(e) pursuant to the Project Implementation Agreement, delegate the day-to-day technical and administrative responsibility for Project implementation to the CPPI. The CPPI, through ODS project implementation units (ODS PIUs) established within the CPPI, and other departments within the CPPI, shall be responsible for: (i) procurement; (ii) accounting; (iii) disbursement; (iv) auditing; (v) reporting and monitoring; (vi) evaluation of activities under the Project; (vii) appraisal and supervision of Sub-projects on behalf of the SCEP; (viii) entering into Sub-agreements on behalf of the Recipient; (ix) implementation of activities related to the strengthening of the regulatory capacity and ODS phase-out monitoring capacity of the Recipient; (x) supplementary project preparation activities for ODS production and consumption phase-out; and (xi) development of public awareness initiatives, all under Part C of the Project; and

(f) cause the CPPI to engage consultants who shall assist it in the area of procurement, financial management and information systems, and Project performance and progress evaluation. The CPPI shall report to the SCEP and liaise with the Inter-Agency Commission, and Recipient's ministries and agencies, and other parties regarding Project activities.

SCHEDULE 6

Sub-Grant Procedures, Eligibility Criteria and Terms and Conditions of Sub-Grant Agreements

Part A. Procedures

1. No expenditures for goods, works and services required for a Sub-project shall be eligible for financing out of the proceeds of the Grant unless: (i) the Bank has received and issued a no objection with respect to the Sub-project; and (ii) expenditures under the Sub-grant for such a Sub-project shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have received the application and information required under paragraph 2 of Part A of this Schedule in respect of such a Sub-grant.

2. In addition to the general procedures described in paragraph 1 of Part A of this Schedule, the following procedures shall be followed in connection with any proposed Sub-project:

(a) a proposed Participating Enterprise seeking a Sub-grant shall prepare and submit to the CPPI an application and summary of the proposed Sub-project; such an application shall include: (i) a description of the Participating Enterprise; and (ii)

a detailed description of the proposed Sub-project, including technical plan, financial plan, cost and benefit analysis, environmental impact assessment and other pertinent environmental information, financial projections, proposed procurement arrangements, and status of authorizations and licenses.

(b) the CPPI shall appraise the proposed Sub-project;

(c) after the proposed Sub-project has been appraised and pre-approved by the CPPI, it shall be submitted to the NPAF Supervisory Board for approval;

(d) after the proposed Sub-project is approved by the NPAF Supervisory Board, the CPPI shall submit to the Bank, for the Bank's review and no-objection, the application, in form and substance satisfactory to the Bank, together with any other relevant materials requested by the Bank, related to the proposed Sub-project, including a draft Sub-grant Agreement with the proposed Participating Enterprise, and a description of how the proposed Sub-project meets the eligibility criteria set forth in Part B of this Schedule; and

(e) upon the Bank's no objection, the CPPI shall, on behalf of the Recipient, enter into a Sub-grant Agreement with the Participating Enterprise.

Part B. Eligibility Criteria

1. All Sub-projects shall be selected in accordance with eligibility criteria satisfactory to the Bank, and consistent with the following primary and secondary eligibility criteria.

2. Primary eligibility criteria are: (i) consistency with the Country Program priorities and objectives; (ii) strategic implications of the proposed Sub-project to overall national ODS phase-out objectives (related to phase-out of ODS consumption and production); (iii) absolute reduction of ODS consumption to be achieved by the proposed Sub-project; and (iv) cost-effectiveness of the proposed Sub-project.

3. Secondary eligibility criteria are: (i) availability of grant funding; (ii) proposed Participating Enterprise viability and long-term business prospects; (iii) relationship between the proposed Sub-project and other related ODS phase-out activities within the proposed Participating Enterprise and/or the sector in which it operates; (iv) importance of the Sub-grant to permitting the proposed Participating Enterprise to undertake ODS phase-out activities; (v) likelihood that the proposed Sub-project will be replicable by other parties; (vi) sustainability and innovation in technology selection; and (vii) local social implications and benefits associated with the proposed Sub-project.

Part C. Terms and Conditions of Sub-grant Agreements

1. Each Sub-grant Agreement shall require the Participating Enterprise to, inter alia:

(a) carry out and operate the Sub-project with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound technical, financial, environmental, commercial and managerial standards;

(b) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions, including separate records and accounts adequate to reflect all resources and expenditures related to the Sub-project;

(c) have its records, accounts and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory to the Recipient, and furnish to the Recipient not later than six (6) months after the end of each such year certified copies of its financial statements for such year so audited and the report of such audit by the auditors of such scope and such detail as the CPPI shall have reasonably requested (which report shall include an analysis of the Participating Enterprise's performance, as measured by the performance indicators satisfactory to the CPPI and the Bank, which shall include, inter alia, commercial, technical, operational, environmental, administrative and financial indicators);

(d) procure the goods, works and services to be financed by the Sub-grants in accordance with the provisions of Schedule 3 to this Agreement and to use such goods, works and services exclusively in the carrying out of the Sub-project;

(e) contribute counterpart funds necessary to finance the Sub-project;

(f) allow the Recipient, by itself or jointly with representatives of the Bank, if the Bank shall so request, to inspect such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(g) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including insurance covering hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Participating Enterprise to replace or repair such goods;

(h) prepare and promptly furnish to the Recipient, for forwarding to the Bank, if so requested by the Bank, all such information as the Recipient or the Bank shall reasonably request relating to the administration, operations and financial condition of the Participating Enterprise and to the benefits to be derived from the Sub-project;

(i) give the Recipient the right to suspend or terminate the right of the Participating Enterprise to the use of the proceeds of the Sub-grant upon failure by such Participating Enterprise to perform its obligations under the Sub-grant Agreement;

(j) refund, upon demand of the Recipient, any part of the proceeds of the Sub-grant as well as interest thereon calculated at the commercial rate from the date of payment of the Sub-grant by the Recipient (until repayment thereof by the Participating Enterprise), which, in the opinion of the Recipient or the Bank, has been misused by the Participating Enterprise; and

(k) at the conclusion of the Sub-project, submit to the Recipient, in a form and manner, and by date satisfactory to the Recipient and the Bank, a Sub-project completion report.

2. Each Sub-grant shall be: (i) denominated in Dollars; and (ii) equal to no less than \$150,000 and no more than \$9,000,000.

