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**Promoting Investments in Energy
Efficiency in Russia's Regions**

**Methodology to Identify JI
Investment Projects**

Working Document

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Abbreviations, Acronyms and Definitions

Acronyms and abbreviations:

AAU	assigned amount unit
AIE	accredited independent entity (executing determination and verification)
BL	Baseline
CDM	Clean Development Mechanism under Article 12 of the Kyoto Protocol
CHP	combined heat and power (cogeneration) plant
CH₄	Methane
CO₂	carbon dioxide
COP	Conference of the UNFCCC Parties
COP/MOP	Conference of the UNFCCC Parties serving as Meeting of the Parties to the KP
DNA	Designated National Authority
ERU	Emission Reduction Unit
FS	feasibility study
GHG	greenhouse gases
g c.e.	gram of coal equivalent (NCV of 1 kg c.e. equals 29.33 MJ of fuel heat)
HPP	hydro power station/plant
IE	independent entity (executing determination and verification)
IRR	internal rate of return
IPCC	Intergovernmental Panel on Climate Change
JI	Joint Implementation project under Article 6 of the Kyoto Protocol
JISC	JI Supervising Committee
KP	Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC)
N₂O	nitrous oxide
NPV	net present value

PI	profitability index
PIN	project idea note
PDD	Jl project design document
Pre-FS	pre-feasibility study (substantiation of investments)
t c.e.	ton of coal equivalent (1 t c.e. amount of fuel with net calorific value 29330 MJ)
UN FCCC	United Nations Framework Convention on Climate Change

Definitions

Additionality	the requirement that project participants reasonably show that project emission reductions are additional to what otherwise would have occurred in case of the absence of the project.
Annex I Parties	Parties to UNFCCC included in Annex I of UNFCCC
Baseline	the scenario that reasonably represents what would have happened to GHGs in the absence of the proposed project
Determination	the process of independent evaluation of a JI project by an accredited Independent Entity against the requirements of JI
Donor party/ country/company	The Party of a JI project – a financial donor to the JI project
First commitment period	2008-2012 commitment period of the Kyoto Protocol
Host party/ country/company	The Party of a JI project which implements the project activity
Identification of a project as JI	It is the analysis of a project proposal aimed to clear out whether this proposal is in compliance with JI requirements and criteria and can be developed further on as a JI project
Jl Supervisory Committee	The Committee that supervises the modalities and procedures of JI/ It works under the authority of the COP/MOP
Small-scale JI projects	Projects defined by the decisions of COP/KP authorities 17/CP.7, paragraph 6 and decision CMP/2005/add.1
Transaction costs	Costs associated with the development of JI project documentation, approval procedures, operation of a JI project (monitoring, verification, transfer of ERUs, services of different kind)

1 Introduction

Task 5 under the current EU Project is to develop and promote investment projects that are eligible under the Joint Implementation (JI) mechanism. In each of the target regions (Sverdlovsk, Rostov and Tver), five JI-projects need to be identified and developed.

In order to start identifying suitable projects in the regions, the project partners must be made aware of the methodology that among others outline the eligibility criteria and requirements for JI projects.

This working document provides the methodology that will be applied in the Project. Since it is based on official UNFCCC formats, the methodology can be applied throughout Russia and its regions.

2 Explanatory note

The Methodology is to be applied for identification of energy saving and energy efficiency projects as potential Joint Implementation (JI) projects under Article 6 of the Kyoto Protocol.

The “Joint Implementation” mechanism of the Kyoto Protocol allows a country with an emission reduction or limitation commitment under the Kyoto Protocol (Annex B Party) to earn emission reduction units (ERUs) from an emission reduction or emission removal project in another Annex B Party, each equivalent to one ton of CO₂, which can be counted towards meeting its Kyoto target.

Joint Implementation offers Parties a flexible and cost-efficient means of fulfilling a part of their Kyoto commitments, while the host Party benefits from foreign investment and technology transfer.

Eligibility and approval.

A JI project must provide a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to what would otherwise have occurred. Projects must have approval of the host Party and participants have to be authorized to participate by a Party involved in the project.

Track 1 and Track 2 procedures.

If a host Party meets all of the eligibility requirements to transfer and/or acquire ERUs, it may verify emission reductions or enhancements of removals from a JI project as being additional to any that would otherwise occur. Upon such verification, the host Party may issue the appropriate quantity of ERUs. This procedure is commonly referred to as the “Track 1” procedure.” If a host Party does not meet all, but only a limited set of eligibility requirements, verification of emission reductions or enhancements of removals as being additional has to be done through the verification procedure under the Joint Implementation Supervisory Committee (JISC). Under this so-called “Track 2” procedure, an independent entity accredited by the JISC has to determine whether the relevant requirements have been met before the host Party can issue and transfer ERUs.

A host Party which meets all the eligibility requirements may at any time choose to use the verification procedure under the JISC (Track 2 procedure).

Russia meets all of the eligibility requirements to transfer and/or acquire ERUs and may apply both Track 1 and Track 2.

In accordance with the decision of the Kyoto Protocol governing bodies 10/CMP.1, Article 4(a), the participants of JI projects can use the CDM methodologies approved by the CDM Executive Board.

For Russian companies implementation of the JI mechanism means additional incomes from “selling” of ERUs and from advanced payments (if participants of a JI projects agrees on such a term) which can be treated as additional investment. Energy efficiency and energy saving projects are appropriate ones for JI. Any such project for which GHG emission reductions can be substantiated, proved and monitored can be referred as JI. At the same time besides this “technological” condition there is a number of other requirements and criteria for JI. Start of a JI project preparation should begin with an analysis of whether a project proposal is in compliance with those requirements and criteria and of whether the project owner will be able to carry out additional responsibilities, execute technical and organizational work and pass all of the necessary JI procedures.

At the time being documentation on about only 35 JI projects has been submitted to the Ministry of Economic Development, they are at the final stage of internal Russian procedures of approval and registering by the Russian Federation according to the governmental decree of 5 May 2007 No 332. After the internal approval procedures are over and a JI project is registered in the Russian Federation transfer of ERUs from JI projects becomes eligible and “carbon” commercial deals between project participants will start working.

3 Identification of JI Investment Projects

3.1 Sources and applicability

Sources

This Methodology refers to the rules, procedures and modalities approved by UNFCCC and Kyoto Protocol authorities at COP/MOPs. It is as well based on international experience gained from developing JI/CDM projects both in Russia and abroad.

Applicability

This Methodology is applicable for the purpose of the EU Project “Promoting investments into energy saving projects in Russia’s Regions” (task No. 5.1 of the Project’s program), namely in Rostovskaya, Tverskaya and Sverdlovskaya where 15 JI projects (5 in each region) are to be identified. The developers of the Methodology believe that it can be applied as well for appropriate work in any other region of Russia as soon as energy efficiency and energy saving JI projects are initiated.

3.2 Stages of JI project preparation and the place for identification

Stages of a JI project identification and development are shown in Table 1.

Table 1. Stages of a JI project identification and development

Step 1	Identification (selection of projects-applicants, identification analysis and development of Project Idea Note - PIN)
Step 2	Attraction of a donor company participant and signing of a preliminary agreement to establish a JI project. This Step means beginning of a JI project development
Step 3	Development of a Project Design Document - PDD (including Baseline study, emission reduction assessment, monitoring plan, etc.)
Step 4	Determination of the PDD by an accredited independent entity
Step 5	National approval procedures and registration of the JI project according to the governmental decree of 5 May 2007 No. 332.
Step 6	Development of Emission Reduction Purchase Agreement (ERPA) between participants of the JI project
Step 7	Approval and registration of the JI project by JI Supervising Committee – JISC which is the Kyoto protocol official body
Step 8 (when the project is operational)	Annual verification of emission reductions, transfer of ERUs, transactions under ERPA

This Methodology refers to Step 1 actions.

3.3 Criteria and requirements for carbon projects identification

3.3.1 GENERAL CRITERIA FOR JI PROJECTS (UN FCCC AND KP AUTHORITIES)

Article 6 of the Kyoto protocol states that:

“any Party included in Annex I may transfer to, or acquire from, any other such Party emission reduction units resulting from projects aimed at reducing anthropogenic emissions by sources or enhancing anthropogenic removals by sinks of greenhouse gases in any sector of the economy, provided that:

- (a) Any such project has the approval of the Parties involved;
- (b) Any such project provides a reduction in emissions by sources, or an enhancement of removals by sinks, that is additional to any that would otherwise occur;
- (c) It does not acquire any emission reduction units if it is not in compliance with its obligations under Articles 5 and 7; and
- (d) The acquisition of emission reduction units shall be supplemental to domestic actions for the purposes of meeting commitments under Article 3”.

Being the Party included in Annex I of the KP Russia meets all of the eligibility requirements to transfer and/or acquire ERUs.

3.3.2 TECHNOLOGICAL CRITERIA

From the point of view of technologies any project and measures in the field of energy efficiency and energy saving may be turned to JI project provided that such projects activities would lead to GHG emission reduction and this reduction can be substantiated and monitored when the project is operational. Only those technologies that are described in the Section “Exclusion Criteria” below should not be taken into consideration during identification analysis and further on.

Energy efficiency and energy saving projects should provide directly or indirectly more efficient Energy efficiency and energy saving projects must provide directly or indirectly saving and/or more efficient production, and/or transportation, and/or distribution, and/or consumption of:

- electricity
- heat (hot water)
- steam
- compressed air
- refrigerants
- fossil fuels (direct use).

Renewables, use of bio-fuel, use of various wastes and flare gases as a fuel, utilization of waste energy, reduction of energy wastes, fuel switching to a less GHG emitting are as well GHG reducing measures that can form a JI project.

At the phase of identification of JI projects any other project proposal where more efficient industrial production is envisaged may be considered.

As a prompt to project owners some characteristic technologies/projects dealing with energy savings and energy efficiency appropriate for JI are placed in Annex 1. They do not exhaust all of the possibilities and projects’ owners and developers are encouraged to consider any other project proposal in the related field.

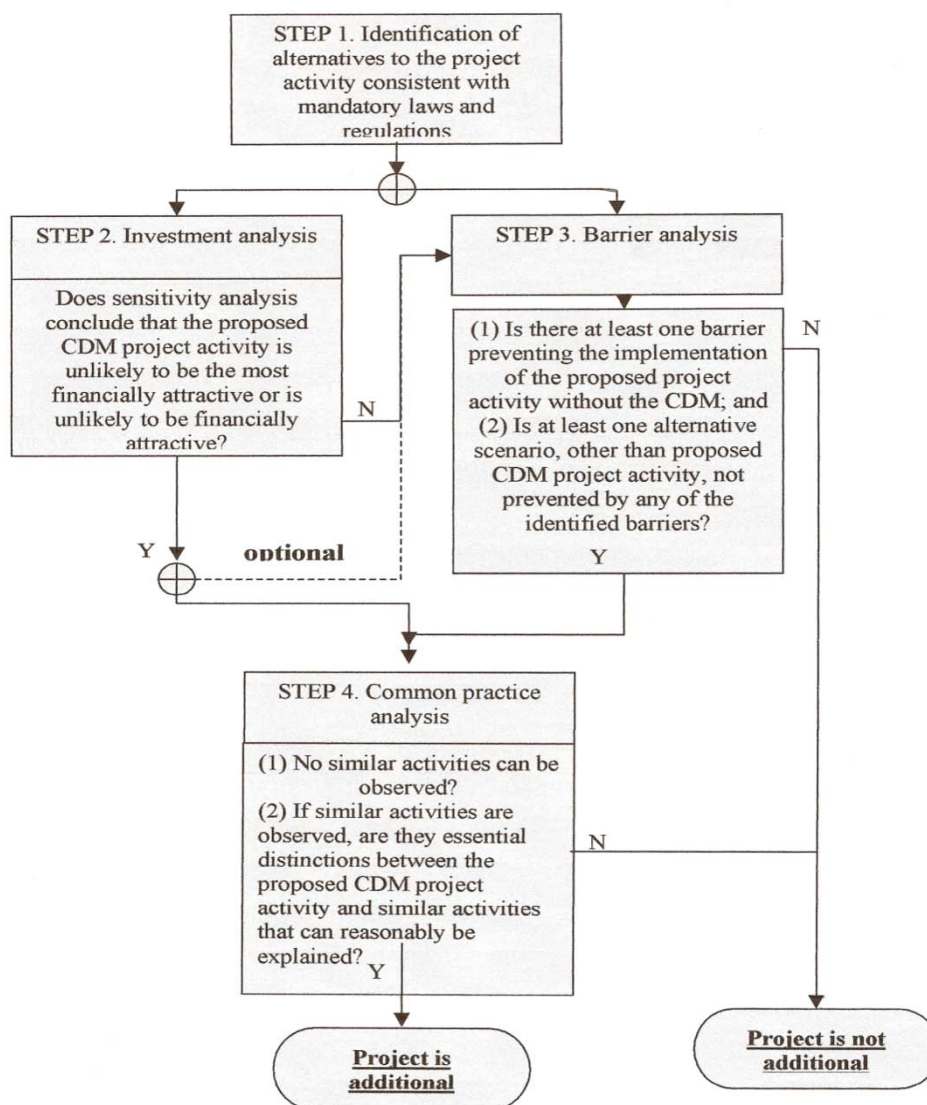
3.3.3 ADDITIONALITY OF JI PROJECTS

Additionality is the condition that is directly established in the Art. 6 of the Kyoto Protocol. Additionality is the requirement for project participants to reasonably show that project emission

reductions are additional to what otherwise would have occurred in case of the absence of the project. When a JI project is being developed it must be clearly shown that one of the aims of the project (besides others) is reduction of GHG emissions. It is one of the critical conditions which may abolish a project as a potential JI. In case a project is initiated only with the aim of gaining profits and is highly profitable it can't be referred as a JI project. The same with the projects which are implemented to meet mandatory laws and regulations (for instance, the project is aimed just to meet environmental standards). In other words a potential JI project must have "carbon" aim contribution. Additionality is tested in full during PDD development (see Step 3 in Fig 1) and the "Methodological Tool for the demonstration of additionality" (version 05.2) which is available at the site: <http://cdm.unfccc.int/methodologies> must be applied. Main test steps for such a demonstration are shown on Fig 2 below.

They are: investment, barrier and common practice tests. In case a project fails to pass one of the sub-steps it can't be identified as a JI. Though JI project participants may "wait" for the results of this test till the PDD is being developed it is highly recommended to make a preliminary evaluation of additionality in advance, at the phase of project identification.

Fig. 2 Main steps of the additionality test



Such an evaluation should follow the main steps established by the Tool:

- identification of realistic alternatives to the project activity;
- investment analysis to determine that the proposed activity is either: 1) not the most economically and financially attractive (in terms of internal rate of return (IRR) and/or net product value - NPV and/or profitability index (PI), and/or payback period – what is available or can be assessed), or 2) not economically and financially feasible by itself (in terms of the same indicators);
- barrier analysis (investment, financial, technical, etc.) as an alternative to the investment analysis as described above;
- common practice analysis: unless the proposed project type has demonstrated to be first-of-its-kind, the above generic tests shall be complimented with an analysis of the extent to which the proposed project type has already diffused in the relevant sector and region. The test is a credibility check to complement the investment and barrier analyses.

At the phase of project identification such an evaluation may not be so thorough as required by the Tool but at least it should give the project participants the notion that the additionality condition can be realistically met.

3.3.4 COMMERCIAL CRITERIA OF JI PROJECTS. REASONABLE SIZE OF A JI PROJECT

Commercial profitability of a JI project.

In principal any reasonable size of a JI project in terms of GHG emission reductions is acceptable. But since a JI project has a commercial component the higher the project size is the higher its attractiveness is for project participants.

Preparation of a JI project, PDD determination (e.g. international expertise), emission reductions verification and transaction of ERUs need transaction costs (TC). Project participants should weigh up in advance transaction costs against carbon revenues (CR). From the formal point of view a JI project becomes profitable for the seller if its TC are less than CR. But it should be taken into account expected profits from the “carbon” deal for the project’s participants, a number of uncertainties of such a deal, unexpected expenditures, discount of carbon revenues, etc. It is proposed by the authors of this Methodology that the inequality $TC < CR$ should be expressed as:

$$5TC < 0,9 \times ERU \times Price \quad (\text{formula 1})$$

where

0,9 – project emission reduction risk factor reducing actual ERUs as compared with assessed reductions;

ERU – assessed emission reduction units, tCO₂;

Price – average price of 1 tCO_{2eq} for the project’s crediting period; defined on the basis of price trends (can be taken from the site: www.pointcarbon.com);

TC – transaction costs based on evaluation of costs by type.

Factor 5 is assumed by the developers to take into account expected profits from the “carbon” deal, a number of project uncertainties, unexpected expenditures, discount rate of carbon revenues, etc.

Emission reductions can be evaluated at this stage by comparing emissions before and after project’s realization using energy and material balances. If developers need help they can address to related Approved Baseline and Monitoring Methodologies placed at the website www.unfccc.int/methodologies. These methodologies are to be used for PDDs development but

they as well can be of good help at the stage of projects identification. There are more than 70 of them applicable for various types of projects/technologies.

Below the list of TC by type is presented:

Transaction costs by type	Description
Project development Phase	
Project identification, proposal development, screening	Costs associated with identifying partners and identifying, screening and developing projects
PDD development	Costs associated with PDD development
Contract negotiations	Costs associated with negotiating terms of ERPA
Determination	Costs related to determination of PDD by IE, incl. contracting IE
Approval activities	Costs of attaining authorization and approval from governments
Implementation Phase	
Monitoring	Costs of monitoring in accordance with monitoring plan
Verification	Costs of related to verification of ERUs by EI
Enforcement and supervision	Costs of measures taken to ensure that the terms of contract are honored
Transfer, trading and other costs	
Transaction activities – transfer of carbon credits	E.g., brokerage costs and possible fees or levies charged by the host country
Administrative costs	Possible fee to cover the costs of the Supervisory Committee
Risk mitigation - optional	Mitigates loss of incremental value as a result of project risks
Registry	Costs of holding an account in the national registry

Source: Basrec JI Handbook

Of all of the TCs only “Administrative costs” to JISC are fixed. They are:

- calculated based on the annual emission reductions (planned or actually reached):
 - 0.10\$ per tCO₂ for the first 15,000 tCO₂ eq
 - 0.20\$ for the next each tCO₂ eq
- maximal charge = 350,000\$

- advance payment at the phase of PDD determination (on the basis of preplanned average annual reductions for the period):

if annual reductions are less than 15,000 tCO_{2eq}, there is no advance payment;

if verification report is not presented the advance payment is returned with 30,000\$ subtracted.

Approval activities in Russia (the domestic procedures of JI projects approval as stated by the Governmental Decree of 5 May 2007 No. 332) are free from charge.

Other TCs are the matter of agreements between the participants of a JI project, between a project participant and a consultant which is hired to develop documentation, between a project participant and an Independent Entity (IE) which is hired for determination and/or verification. It's up to project participants to decide in what shares TCs are distributed between them. The most wide-spread financial scheme is: financial donor Party of a JI project carries most of the expenses of the **Project development Phase** but they are subtracted by the donor party from the first payment for ERUs. Other TCs are carried by the host party of a JI project.

Preparation of PDDs for all of the 15 JI projects under this Program will be financed from the EU Project's fund without any financial consequences to the host party.

During identification project participants are encouraged to use either:

- the algorithm described above; numerical values for formula (1) and transaction costs by type can be taken from Annex 1 (where TCs evaluations are made by Baltic Sea Region Energy Co-operation (BASREC) in BASREC JI Handbook) or
- assume the profitability of a JI project by default (evaluation is made by the developers of this Methodology based on actual prices for services and for ERUs on the European market): minimal amount of ERUs in the 1st crediting period up to 2012 is 60,000 tCO_{2eq} for large- and mid-scale projects. In terms of technical indicators a technical proposal is worth while discussing in case consumption of electricity is decreased by at least 80 mln. kWh, heat by 140 000 GCal (590 TJ), natural gas by 25 000 t c.e. (22 mln. m³), residual oil by 17000 t c.e. (12 000 t) and cal by 15 000 t c.e.

In case the evaluated minimal amount of emission reductions is not reached project developers are encouraged to enlarge the potential JI project as described in Section 4.

Small-scale projects.

To reduce transaction costs and make small-scale projects attractive simplified modalities and procedures are accepted (COP decision 17/CP.7, paragraph 6 and decision CMP/2005/add.1). They are specified as follows:

A. Type (i) renewable energy project activities with a maximum output capacity activity equivalent to up to 15 MW(or an appropriate equivalent);

B. Type (ii) energy efficiency improvement project activities which reduce energy consumption, on the supply and/or demand side, by up to the equivalent of 15 GWh per year (energy efficiency is the improvement in the service provided per unit power, that is project activities which increase unit output of traction, work, electricity, heat, light (or fuel) per MW input; demand side, as well as supply side, projects shall be taken into consideration, provided that a project activity results in a reduction of maximum 15 GWh, a total saving of 15GWh is equivalent to 1000 hours of operation of a 15 MW plant or 15 x 3.6 TJ = 54 TJ);

C. Type (iii) project activities that both reduce anthropogenic emissions by sources and directly emit less than 15 kilotonnes of CO_{2eq} annually. Type (iii) could include agricultural projects such as improved manure management, reduction of enteric fermentation, improved fertilizer usage, etc., and also fuel switching, industrial processes and waste management. Other project activities that could qualify include CO₂ recycling, carbon electrodes, adipic acid production and use of HFCs, PFCs and SF₆ with the emission reductions expressed in CO₂ equivalent.

Empirical evidence on transaction costs related to small-scale projects is scarce and not representative.

3.3.5 DEADLINE FOR COMPLETION OF PROJECTS' IMPLEMENTATION

The 1st commitment period of the KP covers the period of 2008-2012. All of the rules, modalities, regulations, methodologies, international and national procedures for JI are valid for this period of time. The post Kyoto agreement under UNFCCC is under discussion on the international arena at the time being. Hence, a project which is to be completed by 2012 and GHG reductions which will be obtained till 1 January 2013 will be fully eligible under the existing documents. Emission reductions from such projects will also take place after 2012 but by now they can't be taken into account until a new post-Kyoto protocol is signed and it is ratified by the Russian Federation.

For the purpose of this Study it is assumed that projects are to be completed not later than 31 December 2011 and are fully operational from 2012.

3.3.6 AVAILABILITY OF TECHNICAL AND ECONOMICAL DATA

In principal it is possible to initiate a JI project from a "zero point" but identification of such a project can start only after general project data is worked out.

It is wide common to identify JI projects with already prepared feasibility study or pre-feasibility study (substantiation of investments) or business plan or, at least, well detailed technical proposal (technical concept) which provides technical, economical/financial information, time schedule of the main phases of project implementation.

Technical data should include energy and material balances (at least rough estimates) and should be enough for assessment of emission reductions.

The project owner must have at least envisaged but realistic plans of attracting investments (draft investment scheme).

Information needed to finalize Step 1 of JI formation (see Table 1) and start attracting a potential financial donor party can be picked from the template of a Project Idea Note (PIN) presented in Annex 3.

3.3.7 CONDITIONS OF EXCLUSION OF JI PROJECTS:

- a project is already operational or implementation of a project (construction works) has been already started;
- a project is nothing else but adjustment of existing equipment, regimes' optimization, ordinary maintenance works;
- a project is initiated with the only aim to meet national compulsory requirements, standards, etc.
- a project is implemented under a national program and is fully financed from the national budget;
- a project is a demonstration of R&D works which has no reliable test results
- a project must not refer to military industry;
- a project must not use equipment or any other deliverables from countries of a Black list specified by international financial institutes/

3.4 Bundling of small-scale projects. Multi-component projects

Medium- and small-scale projects can be bundled. This make sense when several project owners in one region (for instance, heat network enterprises from different towns of a region) carry out energy efficiency and energy saving measures of the same type. In this case those enterprises must conclude a collaboration agreement with one selected company which will represent all of the projects' owners as one JI project participant that will deal with a potential

buyer of carbon credits and be responsible for carrying out all of the procedures of a JI project. There is no simplification of modalities and procedures for such JI projects.

One JI project may comprise different types of energy efficiency and energy saving measures (for instance, retrofit and replacement of low efficient boilers, and/or replacement of heat pipelines with big heat losses, and/or introduction of frequency converters to provide variable speed drive by motors). Such a saturation of a JI project makes it more complicated for emission reductions assessment and monitoring, transaction costs will inevitably increase and the project as a whole may become “unmanageable”. It is assumed here that the number of components should not be more than 3 or 4.

The main criteria for acceptance of multi-component projects for identification as JI are:

- each component should have all of the features of a usual investment project which forms the basis for a JI project (technical and economical data, schedule of implementation and putting into operation, size in terms of emission reductions, etc.);
- each component provides realistic and reliable possibility to assess and monitor emission reductions according to approved methodologies, modalities and procedures.

3.5. Possible Sources of Potential JI Projects

The Consultant considers the following main sources of project applications:

- Programs and plans for reconstruction, modernization and rehabilitation of enterprises including those target at cost management and energy saving target programs and measures;
- Regional and municipal administrations (programs for economic development, energy saving, environmental control and rational use of natural resources etc.);
- Local consulting companies, working in the area of energy efficiency, environment protection and reduction of GHG emissions;
- Project applications to regional commercial banks and regional branches of central banks;
- Professional associations, societies and unions in different economy branches and regional departments of All-Russian Union of Entrepreneurs and Industrialists;
- Power distribution and power sales companies who has tight connections with their consumers, well informed about their investment plans and having own project ideas concerning energy losses reduction projects in power lines and transformer sub-stations;
- Applications from enterprises resulted from marketing campaign and information dissemination actions about this EU project.

3.6 Sequence of works on identification in brief

Because of the time limit till 2012 the Consultant prefers Applicants (potential Host Parties (HP)) with matured projects. Figure 1 shows logical sequence of tasks which should be performed by the Consultant and HP. Strategy of the Consultant consists in minimising unproductive efforts to work with project ideas which has less chances to be converted into bankable investment projects using JI project mechanisms (because of low creditworthiness, high technological risks or inability to meet the requirements to JI projects).

All projects which will have passed preliminary selection will be ranged. The most matured projects will receive immediately «green light» for the further study, including energy audit (EA) and additional data collection.

EA can be performed not only if collection of additional data and information is needed, but also if the preliminary analysis has revealed that there is additional potential for energy savings, outdated equipment or good potential for the use of complex technologies.

Concentration on the most matured projects does not mean that the Consultant will not consider less developed projects which could be still of potential interest and be attractive. That is why the Consultant will do preliminary selection and documentary EA very carefully to avoid potential mistakes in selection. If project idea gives confidence that it can be developed into good project then the Consultant will provide advice to potential applicant on how they should elaborate on their project idea.

Simultaneously with preliminary selection the Consultant will begin intensive marketing/PR campaign to attract additional project offers and ideas.

3.6.1 ELIGIBILITY CHECK

It is important stage of the project identification because JI projects should meet certain formal criteria described above. They are not always accurately defined and become a part of some regulatory document but it is clear that potential Western carbon buyer will claim eligibility check of the project. Apart from those eligibility criteria mentioned above there are a couple of other to be considered developing JI projects:

- project shall not relate to military production;
- project shall not use equipment manufactured or delivered from countries blacklisted by IFIs and EU (their lists are well coordinated).

The Consultant does not intend to develop its own eligibility criteria and intends to use those used by EU and/or EBRD (as the largest creditor of energy efficiency in Russia). The aim of this task is to avoid unproductive use of resources to prepare projects which have no chance to get financing through JI scheme.

3.6.2 IDENTIFICATION OF POTENTIAL HPS AND PREPARATION OF A LIST OF POTENTIAL PROJECTS

The Consultant will assess project proposals and project ideas arrived from the sources described above. This work will be performed according to the following criteria (preliminary selection):

- potential project size expressed in reduction of CO₂ emissions (tons of CO₂/year),
- availability and applicability of suggested technology,
- project duration time (from the start of project preparation to the project completion date),
- compliance with the Russian legal and regulatory framework (including those part related to JI implementation).

Along with the “quality” of the HP (proactive position and energy or the other way around – being passive), financial condition of HP and its credit history will be very important at the stage of applying for debt financing and also will be take into consideration. The first factor is very important as till the end of 2012 there is not so much time left. Thus only those projects have a chance to get completed within this very short period of time where the HP is run by energetic management which actively support the work of the Consultant. The Consultant will take responsibility for providing assistance in preparation of PDD only to those HPs who are ready to allocate adequate labour support and required data.

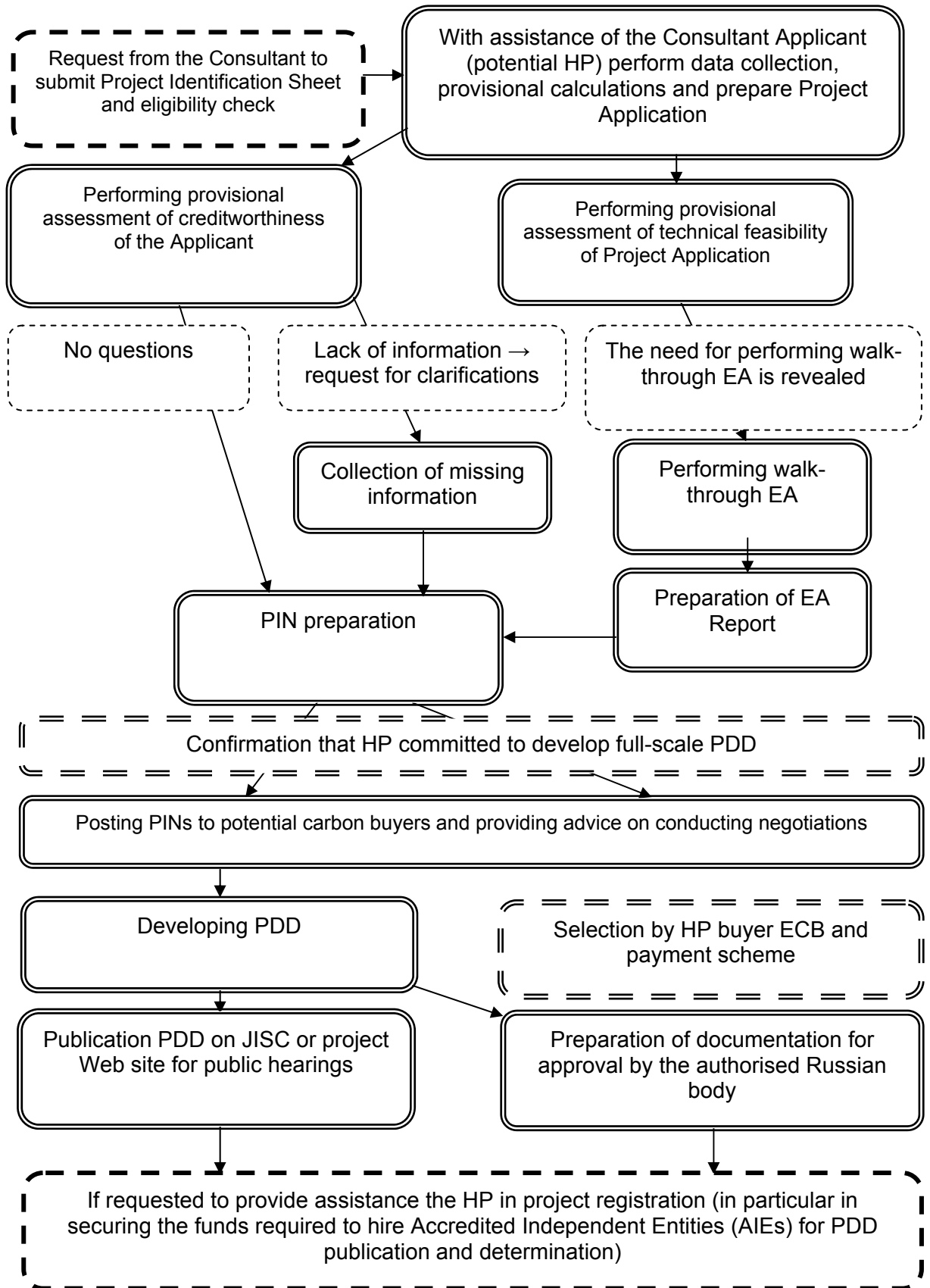
Preliminary selected HPs will receive PIS (please refer to Annex 2). This PIS should help in collection of basic data about potential JI project. However this information should be sufficient for realistic assessment of the HP chances to become prospective borrower. At the same time PIS should be overloaded with excessive information and applicant should be able to fill it out comparatively easy. PIS has three sections:

- Basic technical parameters which enable to estimate reduction of GHG emissions,
- Basic economic parameters (IRR and/or simple payback period),

- Provisional investment scheme (sources of financing).

Selected prospective HPs will receive respective notification and after that a plan of text steps will be jointly developed depending on the results of analysis of data presented in PIS.

Figure 1. Project development scheme



3.6.3 FINAL SELECTION AND PREPARATION OF PROJECTS

Preliminary selection will end up by preparation of “long list” of project proposals ranged according to the main criteria presented earlier. Selection results and identification of project proposals as potential JI projects will be put into the following table:

Criteria/requirement	Meet/do not meet	Notes/next steps
Technological criteria		
Additionality		
Project timeline (by 2012?)		
Need to enlarge		
Availability of technical and economic data		
Eligibility		

Notes should give an answer on question if project proposal can be developed into a project matching the criteria of JI project.

Most perspective project proposals (about 5 in each of 3 regions) will go straight to the next stage when during communication and visits to HP more detailed project descriptions as well as PINs will be developed. This process can have some iteration till the time when PIN will have all required information.

If the Consultant will find it appropriate energy audit will be performed at the HP facilities.

At the end of this work all projects should have PIN which is a kind of project passport. Apart from the information required by major public and private carbon buyers it makes sense to add to PIN the following important information:

- brief analysis of potential project risks,
- implementation plan including schedule of various works/actions,
- assessment of required permits (if they are needed),
- financial plan,
- assessment of how project meet Russian environmental, health and safety standards as well as the list of recommendations on mitigation potential irregularities.

After developing PIN the Consultant will discuss it with HP and agree on its support to devevelopment of PDD. The work on PDD will be continued only with those HPs who provide necessary information and resources for its preparation as well as will have realistic chance to implement JI project. The rest of the PCs will continue to be engaged in JI and general GHG training.

The Consultant will provide comprehensive carbon financing advice to those HPs who are committed to completing their JI projects. In particular, they will get advice on whom and how to send their PINs to prospective carbon buyers and advise them on the carbon contracting negotiations. This way, the HPs themselves could select the carbon buyer and payment model that they would like to follow.

At the end prepared PDDs will be published for public comment on the JISC or internal Web site (if Russia follows Track 1 guidelines). The consultant will also prepare the package (including Project Passport and effectiveness criteria) required for project approval by the Russian Designated National Authority (DNA).¹ If requested, the Consultant will also assist PCs with project determination and registration. In particular, in securing the funds required to hire Accredited Independent Entities (AIEs) for PDD publication and determination.

¹ At present, the Ministry of Economic Development is coordinating JI approval in Russia.

Annexes

Annex 1 Characteristic technologies/projects for JI projects

Sector of economy	Technology/project	Remarks
Power/municipal energy sector/ energy at industrial enterprises	Switch from coal/residual oil (or even natural gas) to use of wood wastes	Several projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
Gas and municipal housing sector	Leak reduction from natural gas compressor or gate stations and gas distribution networks	21 projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
Coal industry	Utilization of degassing methane from mines	21 projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
Power industry	Retrofit/refurbishment/upgrading of TPPs/construction of new TPPs (mostly with gas turbines and combined cycle gas turbines units)	Several projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
Municipal sector	Landfill gas utilization. Remark: the technology should go together with biogas utilization for energy generation	3 projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
Power/municipal energy sector/ energy at industrial enterprises	Utilization of coke oven and other waste gases as a fuel	Several projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
The same as above	Switch from coal/residual oil to natural gas at fuel firing facilities	Several projects are submitted to the Ministry of Economic development for approval. The CDM methodology is available*
The same as above	All types of renewables (wind, solar, geothermal, hydro/ including small-scale, biofuel, thermal pumps, etc/)	The CDM methodologies are available*
Municipal energy /municipal housing sector	Distribution of efficient light bulbs to households and for street lighting	The CDM methodology is available*
Power industry	Facilities to compensate reactive power and reduction of losses in transmission lines	
Municipal housing sector	Additional insulation of buildings	In most cases it's a small-scale project

District heating	Replacement of worn-out tubes in the heat net-works, introduction of individual heat distribution sub-stations instead of central sub-stations, measures of water treatment to reduce scale in the boilers	In most cases it's a small-scale project
Power/municipal energy sector/ energy at industrial enterprises	Introduction of frequency converters (to provide variable speed drives)	In most cases it's a small-scale project
Power/municipal energy sector/ energy at industrial enterprises	Retrofit/replacement of low-efficient boilers for new ones, substitution of tube-type heat exchangers for the plate-type ones	The CDM methodology is available*
All sectors of industry	Measures to reduce energy self-consumption of industrial enterprises of all types	
All sectors of industry	New technologies with lower energy consumption per unit of output products	For some of new technologies the CDM methodologies are available*
Industry	Improvement of insulation of furnaces, heat exchangers	In most cases it's a small-scale project
Power industry/municipal energy sector	Refurbishment of district heating systems in favor of the most efficient heat generators (CHP plants) to replace old boiler-houses	The CDM methodology is available*
Power industry	Replacement of old wheels (impellers) of hydro turbines for the new ones	The CDM methodology is available*
Poultry breeding	Use of wastes as a fuel for energy generation	
Industry	More efficient steam use	The CDM methodology is available*
Municipal housing sector	Efficiency improvement of pumping stations	The CDM methodology is available*
Cement industry	Partial substitution of fossil fuels with alternative fuels or less carbon intensive fuels in cement manufacture; Increasing the blend in cement production; Use of alternative raw materials that do not contain carbonates for clinker manufacturing in cement kilns Switch to dry technology instead of wet one	The CDM methodologies are available*
Livestock farming	Manure management systems with use of biogas for energy generation	The CDM methodology is available*
Transport	Long distance speed buses	The CDM methodology is available*
Municipal housing sector	Treatment of organic wastes from waste-water disposal systems and biogas use for energy generation	The CDM methodology is available*
Agriculture	Use of biomass from fields	The CDM methodology is available*

Power industry	Retrofit/replacement of boilers, turbines and transformers	The CDM methodologies are available*
Power/municipal energy sector/ energy at industrial enterprises/ municipal housing sector	Use of waste energy (steam, hot water, compressed air, etc.)	The CDM methodology is available*

* Please, find appropriate methodology at www.unfccc.int/methodologies where more than 70 methodologies are placed.

This list of technologies/projects does not pretend to represent the full scope of technologies in the field of energy efficiency and energy savings as well as covering all of the sectors of economy

Annex 2 Transaction costs associated with a JI project

Table below provides an indication of the types of transaction costs associated with preparation of a JI project, its functioning and transaction of ERUs according to Baltic Sea Region Energy Co-operation (BASREC) presented in BASREC JI Handbook. It should be noted that the values are approximate and the actual ones can vary significantly from those indicated in Table below as cost are affected by various factors including the complexity of the project, state of market for services, individual peculiarities of a project.

Transaction costs associated with a JI project under Track 2

Transaction costs	Description	Range of costs (euro)
Project development Phase		
Project identification, proposal development, screening	Costs associated with identifying partners and identifying, screening and developing projects	
PDD development	Costs associated with PDD development	1,000 – 31,000 *
Contract negotiations	Costs associated with negotiating terms of ERPA	7,000 -21,000
Determination	Costs related to determination of PDD by IE, incl. contracting IE	10,000 – 19,000
Approval activities	Costs of attaining authorization and approval from governments	**
Estimate range		17,000-70,000
Implementation Phase		
Monitoring	Costs of monitoring in accordance with monitoring plan	1,000
Verification	Costs of related to verification of ERUs by EI	24,000 – 26,000****
Enforcement and supervision	Costs of measures taken to ensure that the terms of contract are honored	1,000 – 5,000
Estimated Range		26,000 – 33,000
Transfer, trading and other costs		
Transaction activities – transfer of carbon credits	E.g., brokerage costs and possible fees or levies charged by the host country	If brokers are utilized success fee is in the range 1-15% of ERUs value
Administrative costs	Possible fee to cover the costs of	***

	the Supervisory Committee	
Risk mitigation -optional	Mitigates loss of incremental value as a result of project risks	1-3% of credit revenue yearly
Registry	Costs of holding an account in the national registry	
Total transaction cost estimate range		46,000 – 112,000

Source: BASREC Regional Handbook on Procedures for JI in the Baltic Sea Region

Comments of the developers of this Methodology :

* actual data from the PDDs that have been already developed – not less than 25,000 euro

** in Russia the procedures are free of charge

*** as decided by the JI Supervising Committee administrative costs are:

- calculated based on the annual emission reductions (planned or actually reached):
0.10\$ per tCO₂ for the first 15,000 tCO_{2 eq}
0.20\$ for the next each tCO_{2 eq}
- maximal charge = 350,000\$
- advance payment at the phase of PDD determination (on the basis of preplanned average annual reductions for the period):

if annual reductions are less than 15,000 tCO_{2 eq}, there is no advance payment;

if verification report is not presented the advance payment is returned with 30,000\$ subtracted.

**** according to offers presented in 2009 by some EIs the cost of an annual verification is approx. 18,000-22,000 euro.

Project Identification Sheet

1. General Information on Investor / Applicant

1.1. Coordinates of the Company

Company name:					
Address:					
City		Post code			
Contact person(s):					
Telephone (1):		Telephone (2)			
Fax(1):		E-mail:			

Type of applicant:

Main activities / products of applicant:

Ownership:

1.2 Financial status:

Turnover 2007: €	Turnover 2008: €
Costs 2007: €	Costs 2008: €
Profit before tax 2007: €	Profit before tax 2008: €
Expenditures for fuel and energy 2007: €	Expenditures for fuel and energy 2008: €

Financial figures for 2007 should correlate with income statement / balance sheet/budget provided with this application as applicable. Figures for 2008 - preliminary

1.3 References

Please add a list of relevant projects within last 5 years financed by equity or using borrowed funds (please give the source of debt financing) including details on

- start and completion year of the project,
- size (technical dimension, financial volume),
- location of the project,
- role of the applicant in the project.

2. Project Description (Objectives and Justification)

Proposal / application number:

- project task
- project description

Sector (more than	/	Type one	/	sector	Group could	of be	Project: indicated)
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Instruction to complete "Sector / Type / Group of Project": click on gray field and choose from pull down menu Yes or No, if you don't choose anything it is deemed as No.

1. Power generation	2. Power transmission	3. Power distribution
4. Heat supply	5. Gas transmission	6. Gas distribution
7. Energy efficiency in end use		
Renewable energy as:		
8. Hydropower	9. Solar Energy	10. Wind Energy
11. Geothermal Energy	12. Biomass	
If other:		

Feasibility Study available and provided to SIP Consultant?
 Click on grey field and choose from pull down menu Yes or No, if you don't choose anything it is deemed as No

Who prepared the feasibility study
 [Yellow field]

Detailed description of the project

[Large empty box for detailed description of the project]

3. Technical Results of the Project

Indicator	Unit	Value
Saved electricity	GWh _{el} /year	[Yellow field]
Saved Heat	Thousand Gcal/year	
Saved fuel of direct use	Thousand t.c.e.	[Yellow field]
Reduction of CO ₂ emissions (equal)	Thousand Ton CO ₂ /year	[Yellow field]

4. Investment Costs

Equipment: (total investment costs for equipment including custom duties but excluding VAT; In case of a proposed turn key contract include the costs of planned installation works.)	€
Engineering / detailed design: (Total costs excluding VAT)	€
Works: (Total investment costs for installation and construction works excluding VAT)	€
Others: (Total investment costs for others including land and contingencies, excluding VAT)	€
Training if not included in the offer of the supplier (Total costs excluding VAT)	€
Commissioning (Total costs excluding VAT)	€
Sum: (Total investment costs excluding VAT)	€

5. Project Financing

	Total investment		Own Financing		Commercial Bank credits		Other Sources	
	€	%	€	%	€	%	€	%
Equipment:								
Eng./detailed design:								
Works:								
Training:								
Commissioning								
Other:								
SUM:		100		100		100		100

Intended start of investment:

Intended completion of investment:

Preliminary time schedule for financing:

7-12 2009:	€	7-12 2011:	€
1-6 2010:	€		€
7-12 2010:	€		€
1-6 2011:	€		€

Is there a loan agreement with EBRD of interest for the applicant? Is there an interest in considering financing from the EBRD energy efficiency facility?

6. Financial Results

Financial Internal Rate of Return (%)	
Net Present Value (€)	
Discounted pay-back period (in years)	

Annex 4 Project Idea Note

PROJECT IDEA NOTE (PIN)

[insert name of project]

Date submitted: _____

A. Project Company/Sponsor/Developer/Advisor and Related-Party Information

Project company	
Name of the project company	
Organizational category	Private company
Legal status	<i>Please specify, for example:</i> Privately held company / privately held company with limited liability / family-owned company / limited company / limited liability company / limited partnership / other
Street Address (include web address, if any)	Address, PO Box, City, Country
Contact person	
Telephone / fax	
Main activities	<i>Describe in 5 lines or less</i>
Summary of financial performance in last fiscal year	Summarize financials (total assets, revenues, profit, etc.) in 5 lines or less in € or \$.
Primary project sponsor(s)	
Name of the project sponsor(s)	
Organizational category	Private company
Legal status	<i>Please specify, for example:</i> Privately held company / privately held company with limited liability / family-owned company / limited company / limited liability company / limited partnership / other
Street Address (include web address, if any)	Address, PO Box, City, Country
Contact person	
Telephone / fax	
Main activities	<i>Describe in 5 lines or less</i>
Summary of financial performance in last fiscal year	Summarize financials (total assets, revenues, profit, etc.) in 5 lines or less in € or \$.
Project developer/advisor (if applicable)	
Name of the project developer/advisor	
Organizational category	Private company / Other (please specify)
Legal status	<i>Please specify, for example:</i> Privately held company / privately held company with limited liability / family-owned company / limited company / limited liability company / limited partnership / other
Street Address (include web address, if any)	Address, PO Box, City, Country
Other function (s) of the project developer in the project	Sponsor / Operational Entity / Intermediary / Technical Advisor <i>(select whatever is applicable)</i>
Contact person	Name of the Project Development Manager/Advisor
Telephone / fax	

Summary of relevant experience of the project developer	<i>Describe in less than 5 lines</i>
Key Business Partners/Entities (where applicable)	
Major shareholders	For each project sponsor/equity provider, please provide: Company name, location, percentage of ownership & major sectors of business operations &/or experience
Fuel supply	Company name, location, length of contract
Power purchase	Company name, location, length of contract
Contractual Arrangements	A description of the contractual and/or legal relationship(s) between the various key business entities including owner(s) of the future ERs.

B. Project Summary: Type, Location, Description, and Schedule

Type of the project	
Greenhouse gases (GHG) targeted	CO ₂ / CH ₄ / N ₂ O / HFCs / PFCs / SF ₆ <i>(select whatever is applicable)</i>
Activity Category	GHG Abatement
Type of activity	Choose based on categories and examples below: <i>(select whatever is applicable)</i>
a. Energy supply	Renewable energy (excluding biomass) / biomass / cogeneration / improving energy efficiency by replacing existing equipment / minimize losses in transport and distribution / fuel switch (e.g., switch coal to biomass)
b. Energy demand	Replacement of existing residential appliances or energy consuming equipment / improvement of energy efficiency of existing production equipment or capacity
c. Transport	More efficient engines for transport / modal shift / fuel switching (e.g., public transport buses fuelled by natural gas)
d. Waste management	Capture of landfill methane emissions / utilization of waste and wastewater emissions
e. Other	<i>Describe in 1-2 lines</i>
Location of the project	
Region	Europe/ Central Asia <i>(select whatever is applicable)</i>
City, Country	
Brief description of the plant or facility site	<i>Describe in 5 lines or less</i>

Project details <i>(Describe in 5 lines or less)</i>	
Project description and proposed activities (including a technical description of the project)	<i>About ½ page</i>
Technology to be employed	Please note that support will be provided to projects that employ commercially available technology. It will be useful to provide a few examples of where the proposed technology has been employed. <i>(Describe in 5 to 10 lines)</i>
Business Rationale & Commercial Strategy	A brief description of the business rationale and commercial strategy underlying the project. <i>(Describe in 5 to 10 lines)</i>
Capability in implementing the project	A description of the knowledge and experience of the Project Sponsor and/or Project Developer/Project Operator in building and operating similar projects. <i>(Describe in 5 lines or less)</i>

Sector Background	
General structure and	<u>Example</u> : In case of an energy project, provide a description

organization	of the power generating capacity in the last five or ten years, the electricity production and consumption in the last one or two years and the predicted electricity production and consumption in the next five years. Attention should also be paid to the organizational sector and institutional framework in the region and/or country. <i>(About ½ page)</i>
Sector policy / strategy	<u>Example</u> : In case of an energy project, provide a description of the energy policy and future strategy of the government related to the use of renewable energy sources. <i>(1 paragraph)</i>
Challenges & opportunities	A description of financial, institutional, technical and/or commercial challenges/barriers and opportunities in the sector. <i>(About ½ page)</i>

Expected schedule	
Earliest project start date	Month & Year in which project will be operational
Estimate of time required before becoming operational	Month & Year of expected financial close: Month & Year for completing legal matters: Month & Year in which negotiations will be completed: Month & Year in which construction will be completed:
Expected date of first ER delivery (post-certification)	This date is expected to be a minimum of 12 months after project start.
Proposed period for delivery of the ERs	
Project lifetime (no. of years)	
Current status or phase of the project	feasibility study finished / negotiations phase / contracting phase / etc. <i>[select whatever is applicable and indicate whether the documentation (for e.g., the feasibility study) is available for review]</i>
Next major steps toward design and financial closure of underlying Project	Availability of an Environmental Impact Assessment / is there an Approval of the Board of the Project Developer and/or Project Sponsors / status of the most important Regulatory Requirements / status of other relevant issues/aspects/documents / etc. <i>(About ½ page)</i>
Description and current status of key necessary permits and consents (other than the Environmental Impact Assessment and Host Country approvals)	Describe the documents required, including expected date of approval (if not already obtained)
Description of key project agreements and expected date of signing	For example, Power Purchase Agreement(s)
Current status of acceptance by the Host Country	Letter of Endorsement is under discussion or available / Letter of Approval is under discussion or available / [For the Trustees: Host Country Agreement (or equivalent) is signed between IBRD and the Host Country/ Host Country Agreement between host country government and Government of Netherlands is under discussion or signed/description of other arrangements in place to facilitate the relevant transfer of rights] <i>(select whatever is applicable)</i>
The position of the Host Country regarding the Kyoto Protocol	The Host Country has: a. signed, signed and ratified, accepted, approved or acceded to the Kyoto Protocol; or

	<p>b. signed and has demonstrated a clear interest in becoming a party in due time (e.g., countries which have already started or are on the verge of starting the national ratification, acceptance or approval process); or</p> <p>c. has already started or is on the verge of starting the national accession process</p> <p>d. other -- please describe.</p> <p><i>(select whatever is applicable)</i></p>
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C. Financial Details

Total project costs estimate <i>(Please provide a breakdown and/or explanation where appropriate)</i>	
Development cost	€ or \$ xx million
Installed project cost	€ or \$ xx million
Other costs	€ or \$ xx million
Total project cost	€ or \$ xx million
Sources of finance identified <i>(Please provide a breakdown and brief summary where appropriate)</i>	
Equity	Names and amounts by provider in € or \$ xx million
Debt - Long-term	Names and amounts by provider in € or \$ xx million
Debt - Short term	Names and amounts by provider € or \$ xx million
Not identified	€ or \$ xx million and a brief summary of needs and any outstanding issues <i>(in 5 lines or less)</i>
Total contribution sought from sale of ERs	€ or \$ xx million and a brief summary of needs and any outstanding issues <i>(in 5 lines or less)</i>
Amount of contribution expected in advance payments	€ or \$ xx million and a brief rationale on why advance payments may be needed <i>(in 5 lines or less)</i>
Expected Price of the ERs	€ or \$ xx
Indicate projected financial IRR for project with and without ER revenues. Assume an ER price of €X/tCO ₂ e (or \$X/tCO ₂ e). [Note: Actual price paid for ERs will be subject to negotiation.]	

D. Expected environmental benefits

Estimate of Greenhouse Gases abated (in tonnes of CO₂-equivalents)	<p>Annual: xx tCO₂e/year</p> <p>Up to and including 2012: xx tCO₂e</p> <p>Volume of expected ERUs: xx tCO₂e</p>
Baseline scenario/analysis	<p>The project must result in GHG emissions being lower than “business-as-usual” in the Host Country. Please indicate briefly:</p> <p><i>(in ½ page or less)</i></p> <ul style="list-style-type: none"> · What is the proposed Project displacing? · How would the future look without the proposed Project? · What would the estimated total GHG emissions be? <p><i>(in 2-4 pages)</i></p> <ul style="list-style-type: none"> · What will be the possible lifetime of the baseline? · Which sources and sinks will be taken into account for the baseline and which not? · What are the current circumstances (including historical emissions data) and policies? · What baseline methodology will be chosen and why?

	<ul style="list-style-type: none"> · What are the uncertainties associated with the estimated emission reductions? · What are the key variables potentially affecting future credibility of the baseline?
Specific global & local environmental benefits <i>(in ¼ page or less)</i>	
Which guidelines will be applied to ensure environmental quality?	In addition to requirements under local law, the relevant World Bank Group Environmental & Social Guidelines and Safeguard Policies will also apply.
Local benefits	
Global benefits	
Stage of the environment issues review	Please summarize what is currently available (preliminary work has been undertaken, a complete review, etc.)?
Social and economic aspects <i>(in ¼ page or less)</i>	
Which guidelines will be applied to ensure social quality?	In addition to requirements under local law, the relevant World Bank Group's Environmental & Social Guidelines and Safeguard Policies will also apply.
What are the possible <u>direct effects</u> ?	What social and economic effects can be directly attributed to the project and which would not have occurred in a comparable situation without that project? For example, employment creation, capital required, foreign exchange effects, etc.
What are the possible <u>other effects</u> ?	For example, training/education associated with the introduction of new processes, technologies and products; effects of the project on other industries; etc.
Stage of the social issues review	Please summarize what is currently available (preliminary work has been undertaken, a complete review, etc.)?
Environmental strategy/priorities of the Host Country	A brief description of the relationship with the local institutional structure, as well as with that of the region and/or country. <i>(in ¼ page or less)</i>
Public Consultation	According to "The Marrakech Accords" local stakeholders should have the opportunity to comment on the proposed project that will be submitted for validation. Has a consultation been initiated? If so, please provide any interim results. If not, please summarize in a few sentences the expected consultation activities and their expected timing. <i>(In ½ page or less)</i>

E. Project-Related Risks and Outstanding Issues

Project risks and issues	
Project risks and mitigation	<i>(In 1 page or less)</i> Mention the major risks and issues with a brief explanation of mitigating factors, if any -- especially as they relate to: <ul style="list-style-type: none"> · the project · the baseline · environmental & social compliance · the market · financial issues · economic issues
Outstanding issues	<i>(In ½ page or less)</i> Mention any other outstanding issues that may be relevant to the project and its performance.