ICR Review

Operations Evaluation Department

Report Number : ICRR11007

1. Project Data:		**Date Posted :**	08/15/2001	
PROJ ID:	P035081		**Appraisal**	**Actual**
Project Name :	Poland Ozone Depleting Substance Phaseout	**Project Costs (US$M)**	20.17	19.34
Country:	Poland	**Loan/Credit (US$M)**		
Sector(s):	Board: ENV - Other industry (82%), Health (15%), Central government administration (3%)	**Cofinancing (US$M)**	6.21	5.88
L/C Number:				
		Board Approval (FY)		97
Partners involved :	GEF	**Closing Date**	12/31/1998	04/30/2001

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2. Project Objectives and Components

a. Objectives

Assist Poland in carrying out a Country Program to phase out ozone -depleting substance (ODS) consumption and enabling users to shift to more ozone-friendly technologies. To be accomplished through:

1. supporting priority subprojects identified in the Country Program for technology conversion to non-chlorofluorocarbon (CFC) materials
2. supporting the establishment of a nationwide network for CFC recovery, reclamation, and recycling (3R)
3. improving the capacity of the Ministry of Environment to manage and oversee the phase -out of ODS in Poland through institutional strengthening .

b. Components

1. Technology conversion and investment (6 subprojects: Polar, Zamex, Inzynieria, Metalplast, POLFA, and EDA).
2. Recovery, reclaim, and recycle (PrOzon)
3. Institutional strengthening (State Fire Service Headquarters, Industrial Development Agency (IDA) and Ozone Layer Protection Unit (OLPU))

c. Comments on Project Cost, Financing and Dates

Project costs were less than anticipated owing to fluctuations in exchange rates . Retroactive financing (a total of 1.01 million) was provided for expenditures of two subprojects, incurred between October 31,1993, and June 1997 grant signing. The project closed, after three extensions, 2 years and 4 months later than anticipated. Project start-up was slow owing to delays in the preparation of all the Sub -Grant Agreements and Project Administration Agreement . Implementation was slowed by the unanticipated bankruptcy of two subproject enterprises .

3. Achievement of Relevant Objectives:

The project fully achieved its objectives . All subproject enterprises have converted to non -ODS technology, the 3R system is operational, and the project has strengthened public institutions involved in carrying out the Country Program as well as the private sector enterprises it influenced .

4. Significant Outcomes/Impacts:

The project helped Poland meet its obligation under the Montreal Protocol and meet standards required for EU accession by directly phasing out more than 820 ODP tons of ODS (against an appraisal estimate of 914 ODP tons) and indirectly phasing out 290 ODP tons (equal to the appraisal estimate). To help ensure the success of the 3R system, a campaign to raise public awareness of the impact of ODS was added to the project in 1999. The campaign, using a well-known spokesperson, succeeded in creating demand for the use of environmentally responsible non-ODS technology.

5. Significant Shortcomings (including non-compliance with safeguard policies):

The most serious shortcoming of the project, the bankruptcy of two subproject enterprises (EDA and Zamex), jeopardized the investment in technology at those sites . The failures were precipitated by the Russian financial crisis of 1998, which resulted in the loss of market for both companies . As noted in the appraisal document (though not in the ICR), at the time of appraisal EDA was undergoing restructuring as part of the government's privatization program and had experienced financial difficulties . The EDA investment (accounting for about 27% of the grant and about 8%

of the total project cost) was secured in 2000 through the establishment of a new enterprise, EKOPON. The new enterprise is expected to begin full operation in August/September 2001, although it remains at risk until it can be assured of regaining its market. The Zamex investment (accounting for about 19% of the grant and about 8% of the total project cost) has yet to be secured, though bidding processes are underway. The ICR judges it "likely that the equipment funded by the Grant will be in operation again." While these failures might not have been predicted, they could have been anticipated, as noted in the ICR, by including in the grant agreement a provision that ensures continued use of the equipment financed by the grant in a manner "consistent with the objectives of the project." The lesson of this project has since been taken into account in other ODS phase-out projects.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Substantial	Substantial	
Sustainability:	Likely	Likely	While most of the components are very successful, it remains to be seen whether the equipment financed by the grant for EDA and Zamex will continue to be used in a manner "consistent with the objectives of the project." This is not, however, sufficient cause to reduce this rating.
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

The ICR offers a number of lessons, among them:

a. The careful selection of enterprises requires appraisal of their financial viability and sustainability.
b. Public awareness campaigns are essential for success and benefit by the use of well-known personalities as spokespersons.
c. Environmental labeling and financial incentives are useful in the market.
d. It is easy to underestimate the amount of technical assistance that may be required to prepare subprojects.

Although not included among the lessons in the ICR, it is worth noting the utility of including a clause in the grant agreement that aims to encourage continued use of the financed equipment for purposes consistent with the objectives of the grant, even when enterprises go bankrupt. The ICR notes (p. 23) that such a clause has been a feature of several subsequent ODS phaseout projects.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

A very good ICR. Its only notable shortcoming is on the matter of the two failed enterprises and the thin support for optimism regarding the likelihood that these investments (representing more than a third of the total grant) will be secured. Although the appraisal document notes the financial difficulties of EDA, some details of this part of the story are not covered in the ICR. In particular, the appraisal document states that sub-grants "will be disbursed subject to a satisfactory assessment of the companies' performance at the end of 1996 and prospects, which would demonstrate improvement of financial performance in terms of reduced losses and increased cash flows." It would be nice to know whether this was done and was faulty, or was not done and therefore represented a neglect of due diligence.