

CONFORMED COPY

LOAN NUMBER 3546 RU

Project Agreement

(Privatization Implementation Assistance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

PRIVATIZATION CENTER OF THE RUSSIAN FEDERATION

Dated May 15, 1993

LOAN NUMBER 3546 RU

PROJECT AGREEMENT

AGREEMENT, dated May 15, 1993, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PRIVATIZATION CENTER OF THE RUSSIAN FEDERATION (the Privatization Center), a state foundation established pursuant to Decree No. 716 of the President of the Russian Federation of November 23, 1992 and the Founders' Agreement dated October 20, 1992.

WHEREAS by the Loan Agreement of even date herewith between the Russian Federation (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to ninety million dollars (\$90,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Privatization Center agree to undertake such obligations toward the Bank as are set forth in this Agreement;

WHEREAS by Subsidiary Project Management Arrangements to be entered into between the Borrower and the Privatization Center (the Subsidiary Project Management Arrangements), a part of the proceeds of the loan provided for under the Loan Agreement will be utilized by the Privatization Center to arrange technical assistance for the

benefit of the Recipients for the purposes described in Schedule 2 to the Loan Agreement and in the Subsidiary Project Management Arrangements and under the terms and conditions thereof; and

WHEREAS the Privatization Center, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General Conditions (as so defined) have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Subproject" means any grant of resources or program of technical assistance arranged by the Privatization Center which involves the provision of goods, services, or other facilities financed out of the proceeds of the Loan to a Recipient for purposes of carrying out the Project;

(b) "Recipient" means any recipient of goods, equipment, or technical assistance provided by the Privatization Center under a Subproject, including GKI, FPF, MKIs, Regional Property Funds and enterprises selected under Parts B.4, B.5, and B.6 of the Project; and

(c) "Regional Property Funds" means property funds of the political and administrative subdivisions of the Borrower, established pursuant to Article 7 (1) of the Borrower's Law on the Privatization of State and Municipal Enterprises of July 3, 1991.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Privatization Center declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, commercial and business standards and practices and in accordance with the Subsidiary Project Management Arrangements, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A and B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Privatization Center shall otherwise agree, the Privatization Center shall carry out Parts A and B of the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts A and B of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. The Privatization Center shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Parts A and B of the Project.

Section 2.04. The goods and services which shall have been

procured by the Privatization Center pursuant to the Subsidiary Project Management Arrangements for the benefit of Recipients under Subprojects in respect of Parts B.4, B.5, and B.6 of the Project, shall be provided to such Recipients under standard Subproject Agreements or other arrangements to be entered into between the Privatization Center and each Recipient under such Subprojects on terms and conditions which shall be acceptable to the Bank, including inter alia, that:

(a) the Recipients maintain for each such Subproject adequate records reflecting the receipt and utilization of the goods and services financed out of the proceeds of the Loan; and

(b) the Recipients make available to the Bank such other information concerning said Subprojects and said Recipients as the Bank shall from time to time reasonably request.

Section 2.05. The Privatization Center shall exercise its rights in relation to each Recipient in such manner as to: (i) protect the interests of the Bank, the Borrower, and the Privatization Center; (ii) comply with its obligations under this Agreement and the Subsidiary Project Management Arrangements; and (iii) achieve the purposes of the Project.

Section 2.06. The Privatization Center shall duly perform all its obligations under the Subsidiary Project Management Arrangements. Except as the Bank shall otherwise agree, the Privatization Center shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Project Management Arrangements or any provision thereof.

Section 2.07. (a) The Privatization Center shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Parts A and B of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Loan.

(b) The Privatization Center shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts A and B of the Project, the accomplishment of the purposes of the Loan, or the performance by the Privatization Center of its obligations under this Agreement.

ARTICLE III

Management and Operations of the Privatization Center

Section 3.01. The Privatization Center shall carry on its operations and conduct its affairs in accordance with its Statutes and in accordance with sound administrative, financial, commercial and business standards and practices and under the supervision of qualified and experienced management, selected in accordance with the procedures described in the Schedule to this Agreement.

Section 3.02. The principal activities of the Privatization Center, including administration of any activities carried out by the Privatization Center at the behest of the Borrower under the Project, shall at all times be performed by, and be the responsibility of, the regular staff of the Privatization Center, duly appointed in accordance with the Statutes and the administrative policies established by the Privatization Center in accordance with the Schedule to this Agreement.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) The Privatization Center shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

- (b) The Privatization Center shall:
- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including separate accounts for the Subprojects, 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: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested;
 - (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. In order to ensure maintenance of strict financial accountability of the Privatization Center of its obligations under Section 4.01 of this Agreement, its activities shall be carried out in accordance with procedures for financial control acceptable to the Bank and under an annual operating budget satisfactory to the Bank, adopted and approved by all necessary corporate action under the Statutes of the Privatization Center and in accordance with its operational policies, under procedures satisfactory to the Bank, including, inter alia, that:

(a) by October 31 of each year, the chief financial officer of the Privatization Center shall have submitted a proposal for the annual operating budget of the Privatization Center for review and comment by the Bank;

(b) by November 30 of each year, the chief executive officer of the Privatization Center shall have submitted a proposed annual operating budget, acceptable to the Bank, to the Board of Directors of the Privatization Center for the approval of such body; and

(c) by December 31 of each year, the Privatization Center shall have submitted evidence to the Bank that an annual operating budget satisfactory to the Bank has been duly approved by all appropriate action of such Board.

Section 4.03. The Privatization Center shall inform the Bank at least thirty (30) days prior to taking any one of the following actions and shall provide to the Bank all such information thereon as the Bank shall reasonably request:

(a) enter into any agreement or arrangement to guarantee or in any way or under any condition to become obligated for all or any part of any financial or other obligation of another person, including any subsidiary;

(b) form any subsidiary, or make or permit to exist loans, advances or cash transfers to, or deposits (except commercial bank deposits in the ordinary course of business) with other persons or investments in any person or enterprise, including any subsidiary;

(c) sell, transfer, lease or otherwise dispose of any of its capital assets (whether in a single transaction or in a series of transactions, related or otherwise);

(d) undertake or permit any merger, consolidation or reorganization;

(e) make any changes to the Statutes; or

(f) enter into any transaction other than in the ordinary course of business, on ordinary commercial terms and on the basis of arm's length arrangements.

Section 4.04. The Privatization Center shall not undertake any activity involving an expansion in the scope of the operations or activities of the Privatization Center beyond that defined by the Project, so as to affect materially and adversely the operations or the financial condition of the Privatization Center or its ability to carry out the Project or perform any of its obligations under the Project Agreement or the Subsidiary Project Management Arrangements.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the Privatization Center thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Privatization Center thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For the Privatization Center:

Ulitsa Ogareva, dom 5
Moscow
Russian Federation

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Privatization Center may be taken or executed by its Director-General or such other person or persons as

the Director-General shall designate in writing, and the Privatization Center shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ernest Stern
Managing Director

PRIVATIZATION CENTER OF THE
RUSSIAN FEDERATION

By /s/ Anatoly Chubais
Authorized Representative

SCHEDULE

Implementation Program

I. Organization and Management of the Privatization Center

A. Organization and Staffing

1. The organization and staffing plan of the Privatization Center shall be acceptable to the Bank, and the positions shall be maintained by qualified staff.

2. Salaries of Privatization Center staff, including management, shall be maintained within a range for each position acceptable to the Bank.

B. Core Management

1. The Privatization Center shall have a core management including: a chief executive officer; a chief financial officer; a chief procurement officer; a chief legal counsel; a chief operating officer; a director of large scale transactions; a public relations officer; a strategic planning officer; and a policy coordinator.

2. The management of the Privatization Center, under the direction of its chief executive officer, shall be responsible for ensuring overall coordination, management and monitoring of Parts A and B of the Project and other relevant obligations of the Privatization Center in accordance with the Subsidiary Management Arrangements, including the carrying out of any procurement and disbursement functions for the Project which may be delegated to the Privatization Center by the Borrower.

C. Selection of Core Management

1. The core management positions of the Privatization Center shall be filled by persons having qualifications and terms of reference acceptable to the Bank.

2. The selection of candidates for core management positions shall be carried out under the direction of the chief executive officer under procedures acceptable to the Bank.

3. The compensation and other terms and conditions of employment of the core management of the Privatization Center shall be subject to approval of its Board.

D. Quarterly Reporting

The Privatization Center shall prepare and furnish to the Bank detailed quarterly reports on the execution and operation of the Project and on other matters, pursuant to Section 9.07 of the General Conditions, of a scope and within a timetable acceptable to the Bank.

II. Restructuring and Environment

The Privatization Center shall:

- (i) not later than December 31, 1993 complete identification of environmental issues affecting the privatization process and thereafter, in consultation with the Bank, formulate methods of resolving those issues.
- (ii) carry out, or cause to be carried out, in connection with each enterprise being prepared for privatization under Part B of the Project, an environmental review under terms of reference acceptable to the Bank or, in cases acceptable to the Bank, ensure the issuance of appropriate disclosures, representations and warranties or other information acceptable to the Bank in lieu of such review.

III. Part B.4 of the Project

1. The Privatization Center shall ensure the selection of the enterprise candidates for privatization under Part B.4 of the Project in conformity with criteria formulated by the Privatization Center and in consultation with the Bank.

2. In respect of each large enterprise identified by the Privatization Center as a potential privatization candidate to benefit from advisory services under Part B.4 (d), (e) or (f) of the Project, the Privatization Center shall furnish to the Bank for its approval the following information and documents:

- (a) an assessment of the likelihood that the large enterprise in question can be successfully privatized;
- (b) confirmation that the privatization plan of the enterprise has been approved in accordance with prevailing legislation and that the management of the enterprise is willing to cooperate fully with the consultants to be appointed by the Center to implement the privatization; and
- (c) a timetable for the privatization and proposed benchmarks for structuring the remuneration of, and monitoring the performance of consultants assigned by the Privatization Center to carry out the Subproject.

3. Preparation of the Standard Subproject Agreement or other arrangements under Section 2.04 of this Agreement shall be the responsibility of the Privatization Center.

IV. Part B.5 of the Project

The Privatization Center shall furnish to the Bank in accordance with a timetable acceptable to the Bank the following

information and documents:

- (i) a plan for managing and executing privatization of small- and medium-sized enterprises in the region or regions selected as Recipients of advisory services under Part B.5 of the Project;
- (ii) the Standard Subproject Agreement or detailed description of other arrangements acceptable to the Bank between the Privatization Center and the Recipient; and
- (iii) confirmation that the GKI and Property Funds in the region concerned have concluded a general agreement relating to their respective roles in the State Privatization Program pursuant to Article 15 (6) of the Law on the Privatization of State and Municipal Enterprises of July 3, 1991.

V. Part B.6 of the Project

The Privatization Center shall adopt an implementation plan providing for a method of selection of the regional Recipients of equipment and allocation of such resources, together with appropriate security arrangements ensuring the proper utilization of the equipment, acceptable to the Bank.

VI. Training under Part B.7 of the Project

The Privatization Center shall carry out a training program under an agreed plan, which shall be submitted by the Privatization Center to the Bank for prior review and approval.

