CONFORMED COPY

LOAN NUMBER 3757 RU

Loan Agreement

(Agriculture Reform Implementation Support Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 22, 1994

LOAN NUMBER 3757 RU

LOAN AGREEMENT

AGREEMENT, dated June 22, 1994, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this

Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (1) and a new sub-paragraph (k) is added to read:
 - "(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."
- Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:
- (a) "Agency Bank" means any commercial bank selected by the Borrower in accordance with, and for the purposes referred to in, Section 3.02 (a) (i) of this Agreement;
- (b) "On-lending Procedures, Terms and Conditions" means the procedures, eligibility criteria, terms and conditions of Private Subprojects referred to in Section 3.02 (a) (ii) of this Agreement;
- (c) "Participating Region" means with respect to any Part of the Project which involves activities intended to be carried out in particular regions of the Borrower which are subjects of the Federation, or in particular administrative subdivisions thereof (rayons), a region which has formally consented, in the manner described in paragraph 5 of Part A of Schedule 5 to this Agreement, to participate in such Part or otherwise cooperate in carrying out such activities under the Project;
- (d) "Private Enterprise" means any legal entity to which the Borrower proposes to make or has made a Sub-loan pursuant to sub-paragraph (a) (ii) of Section 3.02 of this Agreement;
- (e) "Private Sub-project" means a specific development project under Parts A.2 or C.1 of the Project which is intended to be carried out by a Private Enterprise utilizing the proceeds of a Sub-loan;
- (f) "Project Account" means the account referred to in Section 3.04 of this Agreement;
- (g) "Public Investment Sub-project" means any development project, investment or other specifically defined activity under Parts A.1, A.3, B or C.2 of the Project which is intended to be carried out through a Public Project Entity utilizing a portion of the proceeds of the Loan;
- (h) "Public Project Entity" means any of the departments, institutes, agencies or affiliates which may be designated pursuant to Section 3.01 (a) of this Agreement, which the Borrower intends to engage for the carrying out, as a Public Investment Sub-project, of any of the Parts of the Project referred to in such section;
- (i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (j) "Sub-loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to a Private Enterprise for a Private Sub-project;
- (k) "Subsidiary Loan Agreement" means any agreement between the Borrower and a Private Enterprise, entered into pursuant to subparagraph (a) (ii) of Section 3.02 of this Agreement, concerning the financing of a Private Sub-project utilizing the proceeds of the Loan, as the same may be amended from time to time, and such term includes all schedules to such Subsidiary Loan Agreement;
- (1) "PCC" means the project coordinating committee referred to in paragraph A.4 of Schedule 5 of this Agreement;
- (m) "PDU" means the project development unit referred to in Section 3.03 (a) of this Agreement;

- (n) "MOAF" means the Borrower's Ministry of Agriculture and Food;
- (o) "MOF" means the Borrower's Ministry of Finance;
- (p) "ARSRIIMA" means the All-Russian Scientific Research Institute of Innovation and Marketing in Agriculture;
- $\mbox{(q)}$ "Gosseminspektsia" means the Federal Seed Inspection Service of the Borrower;
- (r) "AKKOR" means the Association of Peasant Farms and Cooperatives of Russia;
- (s) "Gossortkomissia" means the Seed Variety Registration Agency of the Borrower;
- (t) "NSAC" means the National Seed Advisory Committee to be established under Part C.2 of the Project;
- (u) "NSA" means the National Seed Association to be established under Part C.2 of the Project; and
- (v) "Computer Center of MOAF" means the state enterprise "Glavnyi Vychislitelnyi Tsentr (GVTs) Minselkhozproda," organized and operated by MOAF under Resolution No. 142 of MOAF of November 1990. ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of two hundred forty million dollars (\$240,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) by a Private Enterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Private Sub-project in respect of which the withdrawal from the Loan Account is requested; (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of expenditures made by a Public Project Entity to meet the reasonable cost of goods and services required for the Public Investment Sub-project in respect of which withdrawal from the Loan Account is requested; and (iii) expenditures made (or, if the Bank shall so agree, to be made) by the Borrower 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 Loan.

- (b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank under selection criteria, terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.
- Section 2.03. The Closing Date shall be June 30, 2000, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate

applicable during such Interest Period.

- (b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.
 - (c) For the purposes of this Section:
 - (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
 - (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
 - (iii) "Semester" means the first six months or the second six months of a calendar year.
- (d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:
 - "(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."
 - "(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."
 - "(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on June 1 and December 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower 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 Parts A.1, A.3, B and C.2 of the Project through MOAF, and with the assistance of the respective Public Project Entities set forth in the Annex to Schedule 5 to this Agreement and other designated Public Project Entities, with due diligence and efficiency and in conformity with appropriate administrative, financial, agricultural, engineering, accounting, information technology and environmental standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purpose of carrying out Parts A.1, A.3, B and C.2 of the Project, the Borrower shall make available to each of the designated Public

Project Entities responsible for carrying out a Public Investment Subproject under any of such Parts of the Project, the funds, facilities, services and other resources required for such Public Investment Subproject, including the corresponding portions of the proceeds of the Loan, under contractual or other arrangements satisfactory to the Bank.

(c) Without limitation or restriction upon the provisions of paragraphs (a) and (b) of this Section, and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) For the purpose of carrying out Parts A.2 and C.1 of the Project, the Borrower shall:

- (i) select, in accordance with criteria satisfactory to the Bank, one or more commercial banks (the Agency Banks) capable of administering the Sub-loans;
- (ii) make available to each Private Enterprise, out of the proceeds of the Loan allocated from to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, the amount of financing required for its respective Private Sub-project under a subsidiary loan agreement (the Subsidiary Loan Agreement) to be entered into between the Borrower and the Private Enterprise (together with any agreement with the Agency Bank, providing for the administration of such Sub-loan), under terms and conditions satisfactory to the Bank, which shall include, without limitation, the terms and conditions set forth in Part C of Schedule 7 to this Agreement; and
- (iii) cause the Private Enterprises to perform in accordance with the provisions of the respective Subsidiary Loan Agreements, all the obligations set forth therein.
- (b) The Borrower undertakes that, unless the Bank shall otherwise agree, the Private Sub-projects will be selected and approved in accordance with the procedures and eligibility criteria set forth or referred to in Schedule 7 to this Agreement.
- (c) The Borrower shall exercise its rights in relation to the Subloans in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. In order to facilitate the efficient carrying out of the Project, the Borrower shall establish, or cause to be established, and thereafter maintain, with membership, staff and other resources, and under terms of reference satisfactory to the Bank:

- (a) a project development unit (PDU) within MOAF responsible for, inter alia, various administrative functions relating to the day-to-day coordination and execution of the Project; and
- (b) component implementation units (CIU) within each of MOAF's departments and agencies under its administrative jurisdiction responsible for carrying out Parts A, B, and C of the Project, respectively, and within the respective administration of each Participating Region under Parts A.2 and C.1 of the Project.

Section 3.04. Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall for purposes of the Project:

(a) open and maintain in a commercial bank an account (the Project Account), in local currency, to be used for ensuring a secure source of financing for the expenditures required to be made by MOAF in conjunction with the implementation of the Project and the establishment and maintenance of the necessary facilities for the carrying out of the Project, including for the Public Investment Sub-projects; and

- (b) for each fiscal year during the execution of the Project, make appropriate budgetary allocations to replenish such Project Account and ensure availability of adequate resources for the financing of expenditures by MOAF during the coming fiscal year, in an amount satisfactory to the Bank.
- Section 3.05. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.
- Section 3.06. Except as the Bank shall otherwise agree, during the execution of the Private Sub-projects under Part C.1 of the Project, the Borrower shall not provide any direct or indirect subsidies on prices of domestic and imported corn and sunflower seed and shall not impose any administrative controls and regulations on the sale of corn and sunflower seed or on prices thereof at all levels of government.
- Section 3.07. During the execution of the Private Sub-projects under Part A.2 of the Project, the Borrower shall not impose, and shall ensure that the Participating Regions do not impose, any administrative controls regulating the price levels or quantities of fruits and vegetables being transacted in the wholesale and retail trade in such Participating Regions.
- Section 3.08. For purposes of ensuring the recovery of incremental operating costs and financing a portion of capital costs relating to Parts A.1, B.1, B.2 and C.2 of the Project, the Borrower shall:
- (a) by December 31, 1995, prepare and implement a schedule of fees satisfactory to the Bank to be charged to users of information provided by Public Project Entities under Parts A.1, B.1, B.2 and C.2 of the Project;
- (b) by December 31, 1996, implement fee-for-service and other appropriate cost recovery measures satisfactory to the Bank; and
- (c) by December 31, 1996, establish, and thereafter operate in a manner satisfactory to the Bank, a ruble account from resources collected by way of fees and other cost recovery measures.

Section 3.09. The Borrower shall:

- (a) carry out technical assistance activities included in the Project under terms of reference satisfactory to the Bank which, when applicable, shall include specific programs or plans of action to meet the objectives of the Project;
- (b) promptly after the completion of each technical assistance activity, furnish to the Bank a copy of its findings and recommendations including such programs or plans of action; and
- (c) afford the Bank a reasonable opportunity to comment on such findings, recommendations and programs or plans of actions.

Section 3.10. Regarding the training programs to be carried out under the Project, the Borrower shall:

- (a) furnish to the Bank for approval the content of each such program as well as the schedule for its implementation;
- (b) select the beneficiaries of such training program in accordance with criteria satisfactory to the ${\sf Bank}{\it i}$
- (c) not later than September 30 of each year, exchange views with the Bank on the training programs to be carried out in the following calendar year; and
- (d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each training program and the benefits to be derived therefrom.

ARTICLE IV

Section 4.01. The Borrower shall maintain or cause to be maintained procedures and records adequate to monitor and record the progress of and expenditures related to the Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations, resources and expenditures of the departments or agencies of the Borrower and of the Public Project Entities responsible for carrying out the Project or any Part thereof.

Section 4.02. (a) The Borrower shall:

- (i) have the records and accounts referred to in Section 4.01 of this Agreement, including those for the Special Account for each fiscal year audited, in accordance with sound auditing standards 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 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 the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.
- (b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:
 - (i) maintain, or cause to be maintained, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
 - (ii) retain, until at least two years after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special 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 (a) 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.

Section 4.03. Except as the Bank shall otherwise agree, the Borrower shall, in respect of any repayments of principal and interest to be made by the Private Enterprises under their respective Sub-loans:

(a) open, by the date on which it shall receive the first such repayment, and thereafter maintain, in a bank acceptable to the Bank, a separate account, on terms and conditions satisfactory to the Bank; and

(b) upon the receipt of each such repayment, credit the same to the said separate account. All amounts to be so credited shall be utilized, to the extent they are not yet required to meet the Borrower's repayment obligations under this Agreement, exclusively to finance similar Private Sub-projects acceptable to the Bank on similar terms and conditions as those applicable to the respective portions of the Sub-loans so repaid and credited to the said separate account.

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that the On-lending Procedures, Terms and Conditions shall have been amended, suspended, abrogated, repealed or waived in a manner that materially and adversely affects the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) that suitably qualified persons have been appointed to positions within the PDU to carry out, under terms of reference and other conditions of employment satisfactory to the Bank, the following functional assignments or capacities relating to the implementation of the Project: project management, accounting, procurement and technical specialists for each of Parts A, B and C of the Project;
- (b) that each of the component implementation units (CIUs) within the departments and agencies of MOAF, and in at least two Participating Regions under each of Parts A.2 and C.1 of the Project, as referred to in Section 3.03 (b) of this Agreement, have been established, and each of their directors have been appointed; and
- (c) that the Project Account has been opened with an initial deposit in rubles equivalent to one million dollars (\$1,000,000).

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance or the Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance 103097 Moscow Ilyinka, 9 Russian Federation

Telex:

112008

For the Bank:

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

Cable address:

Telex:

INTBAFRAD Washington, D.C.

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

248423 (RCA)

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.

RUSSIAN FEDERATION

By /s/ Aleksandr N. Shokhin Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz Regional Vice President Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category		Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1)	Turnkey contracts under Sub-loans made under Part C.1 of the Project	76,000,000	100%
(2)	Works	7,000,000	30%
(3)	Goods	95,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(4)	Consultants' services and training	22,000,000	100%
(5)	Unallocated	40,000,000	

TOTAL

240,000,000

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and
- (b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower
- 3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:
- (a) withdrawals by a Sub-borrower under any Sub-loan for expenditures made to finance any turnkey contract under Category (1) of this Schedule, unless the Sub-loan, and the Private Sub-project in respect of which such Sub-loan is made, have been approved in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 7 to this Agreement; and
- (b) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$1,000,000 may be made in respect of Categories (1) through (4) on account of payments made for expenditures before that date but after June 1, 1994.
- 4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works, services and training not exceeding \$100,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to create and strengthen the most critical support services required for the implementation of on-going and future agricultural reforms in the territory of the Borrower, in the course of its transition to a market-oriented agricultural economy; and (b) to build analytical and institutional capacity to identify, appraise and implement agricultural and agro-business investments by private sector entities on the basis of market criteria.

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

Part A: Market Infrastructure Development

1. Market Information System

Establishment of a nationwide agricultural market information system, consisting of collection, processing and dissemination of market information pertaining to agricultural commodities and inputs.

2. Pilot Investments in Market Infrastructure

Private Sub-projects involving the development of pilot privately-owned and operated fruit and vegetable marketing enterprises in three Participating Regions (Moscow City, Moscow Oblast and Belgorod Oblast) and such other Participating Regions as may be agreed upon between the Bank and the Borrower.

3. Institutional Development

(a) Training of staff from eligible Public Project Entities and

Private Enterprises in the areas of marketing; information systems, including data collection and processing; market enterprise development, including stock management and storage operations; financial management; product pricing and profitability analysis; and financial and cost accounting.

(b) Clarification and development of the roles the MOAF and selected administrations of Participating Regions in market development through provision of technical assistance.

Part B: Farmer Information and Advisory Service (FIAS)

1. Farmer Information Development

Strengthening MOAF's capacity for information development and packaging at the federal, oblast and rayon levels and providing assistance in establishing FIAS centers at the oblast and rayon levels in Participating Regions to provide agricultural advisory and training services and serve as the primary source of agricultural and related information to farmers, farms and enterprises.

2. Farmer Information Dissemination

Establishment, through Public Investment Sub-projects, of a multi-media system for dissemination of farmer information.

3. Institutional Development

- (a) Training of:
 - (i) staff of the farmer information and advisory centers at the federal, oblast, and rayon levels; and
 - (ii) end-users representing a range of emerging farm organizations and agri-business enterprises in various aspects of farmer information development and dissemination.
- (b) Development of computer software, farmer information packages and dissemination and international contractual arrangements for farmer information and advisory services through provision of technical assistance therefor.

Part C: Seed Industry Development

1. Pilot Investment in Seed Enterprises

Private Sub-projects involving the development of seed production, processing and marketing by privately-owned and operated seed enterprises producing hybrid corn and sunflower seeds in up to eleven Participating Regions (Krasnodar and Stavropol Krais; Rostov, Belgorod, Volgograd, Voronezh Oblasts and such other Participating Regions as may be agreed between the Bank and the Borrower).

2. Institutional Development

- (a) Training of:
 - (i) staff of MOAF at federal level; department of agriculture/agriculture committee at oblast, rayon and republic levels;
 - (ii) staff of Gossortinspektsia and Gossortkomissia at federal, oblast, rayon and republic levels; and
 - (iii) senior management staff and registered seed growers representing the Private Enterprises and members of NSAC and NSA.

(b) Technical Assistance to:

(i) NSAC in defining a national seed policy; updating the National Seed Law and drafting the implementation manual

for the Plant Breeder's Rights Law;

- (ii) establish procedures for seed testing and varietal testing;
- (iii) draft articles of association and by-laws for the NSA; and
- (iv) help organize training programs.
- (c) Strengthening of the varietal testing stations and laboratories for enhancing the varietal testing and registration of Gossortkomissia; and establishing and strengthening of seed testing and training centers and laboratories of Gosseminspektsia to enhance their efficiency and capacity.

Part D: Project Development Unit (PDU)

Establishment and maintenance of institutional capacity within the PDU to provide administrative, institutional and training support to implement the Project and to assist in the development of a capacity to prepare agricultural support programs and development projects.

* * *

The Project is expected to be completed by December 31, 1999. SCHEDULE 3

Amortization Schedule

Date Payment Due

Payment of Principal (expressed in dollars)*

On each June 1 and December 1

beginning December 1, 1999 through December 1, 2010

10,000,000

And on June 1, 2011

10,000,000

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment

^{*} The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Time of Prepayment

Premium

The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:

Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

- 1. Except as provided in Parts B and C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).
- (a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.
- (b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.
- 2. Subject to the concurrence of the Bank, the design, construction, equipping and commissioning of Private Sub-projects under Part C.1 of the Project may be procured on turnkey basis which shall be exclusive of the works and goods procured by the Private Enterprise using its own funds. Bidders for such contracts shall be prequalified as described in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Russian Federation may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1

through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

- 1. Items or groups of items for goods estimated to cost the equivalent of \$500,000 or less per contract, up to an aggregate amount equivalent to \$10,200,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from a list, acceptable to the Bank, of qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).
- 2. Items or groups of items for goods estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount equivalent to \$14,900,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.
- 3. Works estimated to cost the equivalent of \$100,000 to \$1,000,000, up to an aggregate amount equivalent to \$18,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Works estimated to cost the equivalent of \$100,000 or less per contract up to an aggregate amount equivalent to \$300,000 may be procured under contracts awarded on the basis of price quotations obtained from at least three suppliers, in accordance with procedures satisfactory to the Bank. Bidders for these contracts would be prequalified as provided in paragraph 2.10 of the Guidelines.
- 4. Contracts for goods estimated to cost up to an aggregate amount equivalent to \$100,000 may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

 Part D: Review by the Bank of Procurement Decisions
- 1. Review of invitations to bid and of proposed awards and final contracts:
- (a) With respect to each contract for goods estimated to cost the equivalent of \$300,000 or more, and with respect to the first two contracts for works for each component of the Project and all contracts for works exceeding the equivalent of \$500,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.
- (b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.
- (c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.
- 2. The figure of 15 percent is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.
- Section II. Employment of Consultants

In order to assist the Borrower in implementing the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

SCHEDULE 5

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section $3.01\ (c)$ of this Agreement.

- A. Overall Coordination and Management of the Project
- 1. The MOAF shall be responsible for coordinating and monitoring the overall implementation of the Project.
- 2. Within MOAF, the Project Development Unit (PDU) shall be responsible for day-to-day work related to Project implementation, budgeting, procurement, disbursement, auditing, reporting, monitoring and evaluation, and appraisal of all components of the Project involving Private Sub-projects.
- 3. The Component Implementation Units (CIUs) within the line departments and other agencies of MOAF and in the Participating Regions referred to in Section 3.03 (b) of this Agreement shall be responsible for coordinating and managing the implementation of the relevant activities described under the corresponding Parts of the Project, including supervision of activities to be executed by Public Project Entities.
- 4. The Borrower shall establish an interagency Project Coordinating Committee (PCC) to advise and assist the Minister of Agriculture on various matters related to implementation of the Project. The PCC shall also approve applications for Sub-loans to Private Enterprises under Parts A.2 and C.1 of the Project. The PCC shall be chaired by the Minister of Agriculture, and will comprise a membership representing, inter alia, MOAF, MOF, and the Ministry of Economy.
- 5. With respect to any Project activities to be implemented in specific regions which are subjects of the Federation, or in particular administrative subdivisions thereof (rayons), the responsible CIU shall: (i) examine the connection between the objectives of the Project and the specific policies of such region or operating environment prevailing therein; (ii) prior to authorizing the commencement of the execution of such activity, determine the necessary conditions to ensure an appropriate operating environment for such activity; and (iii) take all action necessary to secure appropriate assurances and undertakings from the relevant subject of the Federation (the Participating Region) in respect of the activity concerned, including specific commitments regarding any services, facilities, equipment and counterpart personnel to be made available by such region or rayon in conjunction with the implementation of such activity.

B. Part A of the Project

- 1. The CIU shall approve the final design of and monitor the progress of the MIS network development to be carried out by the Computer Center of the MOAF under the Parts A.1 and B of the Project.
- 2. Part A.2 of the Project shall be implemented through a CIU in MOAF and three local CIUs established by the Moscow City, Moscow Oblast and Belgorod Oblast administrations, respectively. The PDU shall, inter alia: (1) appraise the feasibility studies for each proposed Private Sub-project; (2) prepare technical specifications for each Private Sub-project; and (3) coordinate with any Agency Banks with respect to accounting, reporting, and repayments of Sub-loans.

C. Part B of the Project

The CIU shall approve the design and monitor the progress of the Public Investment Sub-projects to be implemented with the assistance of the All-Russian Scientific Research Institute of Innovation and Marketing in Agriculture (ARSRIIMA) and its affiliates at the oblast and rayon levels,

and the Association of Peasant Farms and Cooperatives of Russia (AKKOR), and other appropriate research and scientific institutes.

- D. Part C of the Project
- 1. Part C of the Project shall be implemented by the CIU with the assistance of NSAC, Gosseminspektsia and Gossortkomissia.
- 2. PDU shall, inter alia: (1) appraise feasibility studies for each of the proposed Private Sub-projects; (2) be responsible for the preparation of technical specifications for each such Private Sub-project; (3) coordinate with any Agency Banks with respect to accounting, reporting, and repayments of Sub-loans; and (4) organize, through CIU, training and technical assistance.
- 3. MOAF shall: (1) establish the National Seed Advisory Committee (NSAC) by December 31, 1994; (2) promote establishment of the National Seed Association (NSA) by December 31, 1995; and (3) review and make recommendations on the draft National Seed Law by June 30, 1995.
- 4. Gossortkomissia shall upgrade and equip its varietal testing stations and laboratories by December 31, 1995. Gosseminspektsia shall: (a) establish/strengthen the seed testing and training centers at Moscow and Krasnodar by June 30, 1996; and (b) strengthen regional seeds testing laboratories by June 30, 1996.

ANNEX TO SCHEDULE 5

Public Project Entities Responsible for Execution of the Project

	Project, Investment, or Activity	Public Project Entity/ies
<pre>Under Part A.1 of the Project (Market Information System):</pre>	Development of MIS network	Central Market Information Unit of MOAF and Computer Center of MOAF
Under Part B of the Project (Farmer Information and	Development of farmer information packages	MOAF and ARSRIIMA
Advisory service):	St. Petersburg agricultural exhibitions and fairs	MOAF and AKKOR
	Video productions	MOAF Video Center and AKKOR
	Electronic information, pilot programs	Computer Center of MOAF, ARSRIIMA and Institute of Cybernetics
Under Part C.2 of the Project (Seed Industry Institu- tional Development):	Upgrading of varietal testing stations and laboratories	Gosseminspektsia
cional Development,	Strengthening of Seed Testing Training Center	Gossortkomissia
	SCHEDULE 6	
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Special Account

- 1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (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 and services required for the Project and to be financed out of the proceeds of the Loan 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 Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.
- 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 Borrower shall furnish to the Bank a request or requests for a deposit or deposits 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 Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower 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 Borrower 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 Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower 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 Loan 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 Borrower out of the Special Account, the Borrower 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
- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. 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 Borrower 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 Borrower 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 Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.
- (c) The Borrower 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 Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

On-Lending Procedures, Eligibility Criteria and Terms and Conditions of Private Sub-projects

A. Procedures

- 1. No Sub-loan shall be eligible for financing out of the proceeds of the Loan unless: (a) the relevant Private Sub-project shall have been approved in advance by the PCC, either: (i) with the approval of the Bank, following the provisions of paragraph 3 (c) of this Part A; or (ii) upon receipt of proper evidence of the concurrence of the Bank, following the provisions of paragraph 3 (d) of this Part A, as the case may be; and (b) the expenditures under such Sub-loan in respect of which withdrawal from the Loan Account is requested shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under this Schedule in respect of such Sub-loan.
- 2. When presenting a Private Sub-project to the Bank for review or concurrence, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Private Enterprise to which the Sub-loan is proposed to be made and the approved feasibility study for such Private Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the draft Subsidiary Loan Agreement containing the proposed terms and conditions of the Sub-loan and the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.
- 3. In addition to the general procedures described in paragraphs 1 and 2 of Part A of this Schedule, the following procedures shall be followed in connection with any proposed Sub-loan:
- (a) A Private Enterprise seeking a Sub-loan shall prepare a feasibility study for the proposed Private Sub-project in accordance with guidelines satisfactory to the Bank.
- (b) The PDU shall appraise the proposed Private Sub-project, and the PCC shall approve each such Sub-loan, on the basis of recommendations made by the PDU, which may employ other experts for such purpose.
- (c) Until at least three Sub-loans shall have been made to Private Enterprises under each of Parts A.1 and C.2 of the Project, respectively, the PDU shall ensure that each qualifying Private Sub-Project for which a Sub-loan is proposed to be made is submitted in advance to the Bank for approval, such approval to be based on a review and appraisal of the

proposed Private Sub-project in such manner and of such scope as the Bank shall reasonably request.

- (d) After the first three Sub-loans shall have been made to Private Enterprises under either Parts A.1 or C.2 of the Project, and unless otherwise agreed by the Bank, the PDU shall submit the approved feasibility study for each proposed Private Sub-project under such Part to the Bank in advance for concurrence with the recommendation of the PDU to approve such Private Sub-project for financing.
- (e) Following the approval of the Sub-loan by the PCC, and the approval or concurrence from the Bank, the Borrower through the MOF and MOAF, shall enter into a Subsidiary Loan Agreement with the Private Enterprise giving the Borrower legal rights adequate to protect the interests of the Bank and the Borrower, and containing, inter alia, the terms and conditions enumerated in Part C of this Schedule 7.

B. Eligibility Criteria

1. Sub-loans shall be made only to Private Enterprises which are independent, privately-owned and commercially profitable enterprises, evaluated in accordance with economic, financial, technical and environmental criteria satisfactory to the Bank.

2. Under this Part B:

- (a) the term "independent" shall mean any enterprise not controlled, directly or indirectly, by the Borrower or any governmental entity;
- (b) the term "privately-owned" shall mean that the ownership interest by the Borrower or a political or administrative subdivision thereof, by any agency of the Borrower or any subdivision thereof, or by any regional, local or other governmental body in such Private Enterprise does not exceed 49 percent of equity; and
- (c) the term "commercially profitable" shall mean any enterprise whose existing and potential profitability meets profitability criteria established by the PCC acceptable to the Bank.

C. Terms and Conditions

Each Subsidiary Loan Agreement shall require the Private Enterprise to, inter alia: (i) carry out and operate the Private Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, agricultural, environmental, and managerial standards; (ii) maintain separate adequate accounting and financial records, including a separate bank account related to the Sub-loan and for expenditures thereunder and ensure that revenues and expenditures related to the Private Sub-project are kept distinct and separate from the Private Enterprise's operations unrelated to the Private Sub-project; (iii) procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement and use such goods and services exclusively in the carrying out of the Private Sub-project; (iv) allow the Borrower, 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 Private Sub-project, the operation thereof, and any relevant records and documents; (v) 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 Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Private Enterprise to replace or repair such goods; (vi) prepare and promptly furnish to the Borrower, for forwarding to the Bank, if so requested by the Bank, all such information as the Borrower or the Bank shall reasonably request relating to the administration, operations and financial condition of the Private Enterprise and to the benefits to be derived from the Private Sub-project; (vii) have its records, accounts and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (viii) employ trained managers to manage the Private Sub-project; (ix) contribute not less than 15 percent of the estimated total costs of implementing the Private Sub-project

(employing a consistent methodology for purposes of such cost estimates and valuation of such contributions acceptable to the Bank); and (x) adopt a production restructuring plan to improve production and productivity.

(b) Each Sub-loan shall: (i) be expressed in Dollars and be repayable (principle and interest) in Dollars or ruble equivalent valued at the prevailing market rate of exchange applicable at the time of the respective due date of each such repayment; (ii) carry an adjustable interest rate equal to the interest rate determined according to Section 2.05 of this Agreement plus a margin of two and one-half percent (2.5%) to cover administrative costs (including any commission payable to the Agency Banks) and risks; (iii) be issued for a maximum maturity period of ten years (or such longer period as may be acceptable to the Bank), with up to two years' grace period, for the repayment of the principal of the Sub-loan; (iv) be secured by liens or mortgages on the specific assets of the Private Enterprise which are to be financed under the Sub-loan and a first charge on all other assets of the Private Enterprise covering at least 100 percent of the Sub-loan; and (v) be subject to a right of suspension upon failure by such Private Enterprise to perform its obligations under the Subsidiary Loan Agreement.