

CONFORMED COPY

LOAN NUMBER 4009 RU

Loan Agreement

(Community Social Infrastructure Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 27, 1996

LOAN NUMBER 4009 RU

LOAN AGREEMENT

AGREEMENT, dated August 27, 1996, between the RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself 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;

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; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, (the General Conditions) constitute an integral part of this 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) "Advisory Board" means the board referred to in paragraph 1(b) of Part I D of Schedule 7 to this Agreement;

(b) "CPIU" means the Central Project Implementation Unit to be established by the Borrower in Moscow pursuant to Section 6.01(b) of this Agreement;

(c) "MINNAT" means the Ministry of Nationalities and Federal Affairs of the Borrower, and includes any successor or successors thereto;

(d) "Novosibirsk Region" means Novosibirsk Region, a subject of the Russian Federation, and includes any successor or successors thereto;

(e) "Novosibirsk Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Novosibirsk Region referred to in Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Novosibirsk Subsidiary Loan Agreement;

(f) "Project Account" means each of the accounts referred to in paragraph 1 (c) of Part I D of Schedule 7 to this Agreement;

(g) "Project Bureau" means each of the Project bureaus to be established in each of Rostov Region and Novosibirsk Region referred to in paragraph 1 (a) of Part I D of Schedule 7 to this Agreement;

(h) "Project Manual" means the project manual to be submitted to the Bank by the Borrower and referred to in paragraph 3 of Schedule 5 to this Agreement establishing criteria for the selection, appraisal and implementation of Sub-projects;

(i) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated November 20, 1995 and April 5, 1996 between the Borrower and the Bank;

(j) "Project Sector" means each of the: (i) education; (ii) health and (iii) water supply and sanitation sectors to be financed under the Project;

(k) "Region" means each of Novosibirsk Region and Rostov Region (as hereinafter defined);

(l) "Rostov Region" means Rostov Region, a subject of the Russian Federation, and includes any successor or successors thereto;

(m) "Rostov Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Rostov Region referred to in Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Rostov Subsidiary Loan Agreement;

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

(o) "Sub-borrower" means a sub-region, municipality, vodokanal (as hereinafter defined) or other entity to which Rostov Region or Novosibirsk Region proposes to make or has made a Sub-Loan;

(p) "Sub-loan" means a loan made or proposed to be made by a Region to a Sub-borrower for a Sub-project (as hereinafter defined) on the terms and conditions set out in Part II of Schedule 7 to this Agreement out of the equivalent of the proceeds of the Loan relented to the Region under a Subsidiary Loan Agreement (as hereinafter defined);

(q) "Sub-project" means a specific project in any Project Sector under Part A or Part B of the Project to be carried out by a Sub-borrower utilizing the proceeds of a Sub-loan in accordance with the procedures and criteria referred to in Part II of Schedule 7 to this Agreement;

(r) "Subsidiary Loan Agreements" means the Rostov Subsidiary Loan Agreement and the Novosibirsk Subsidiary Loan Agreement and the term "Subsidiary Loan" means each loan provided thereunder; and

(s) "Vodokanal" means a public corporation responsible for water supply and sanitation utilities in Rostov Region or Novosibirsk Region.

## 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 the Loan Agreement, an amount equal to two hundred million dollars (\$200,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2002 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 per cent ( $3/4$  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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half

of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable April 15 and October 15 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: (i) shall carry out Part C of the Project, and (ii) shall cause each of Rostov Region and Novosibirsk Region to carry out Parts A and B, respectively, of the Project with due diligence and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project.

(b) Without limitation to the provisions of paragraph (a) of this Section, and except as the Bank shall otherwise agree, the Borrower shall carry out Part C of the Project and cause each of Rostov Region and Novosibirsk Region to carry out Parts A and B, respectively, of the Project in accordance with the Project Implementation Schedule referred to in paragraph 2 of Part I B of Schedule 7 to this Agreement.

(c) The Borrower shall relend out of the proceeds of the Loan: (i) the amounts allocated from time to time under Categories (1) (a) and (c), (2) (a) and (c), (3) (a), (4) (a), (5)(a) and (6)(a) to Rostov Region; and (ii) the amounts allocated from time to time under Categories (1) (b) and (d), (2) (b) and (d), (3) (b), (4) (b), (5) (b) and (6) (b) to Novosibirsk Region under Subsidiary Loan Agreements to be entered into between the Borrower and each of Rostov Region and Novosibirsk Region under terms and conditions satisfactory to the Bank, including, without limitation, the terms and conditions specified in Part I of Schedule 7 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on a continuous basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about June 1, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank by September 1, 1998, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

Section 3.04. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

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

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

#### ARTICLE IV

##### Financial and Other Covenants

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

(b) The Borrower shall:

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

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

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

Section 4.02. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;

(ii) retain and ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last

withdrawal from the Loan Account was made;

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

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

Section 4.03. The Borrower shall ensure that Novosibirsk Region and Rostov Region shall, within one year of the date of effectiveness of this Loan Agreement, establish an investment mechanism acceptable to the Bank for financing pilot Sub-projects in the health sector.

Section 4.04. The Borrower shall cause each Region to ensure that:

(a) the aggregate amount of Loan proceeds utilized for Sub-projects in any one Project Sector shall constitute not more than 40% nor less than 25% of the aggregate amount allocated to Categories (1), (2) (a), (b), (c) and (d) and (8) (a) and (b) in Schedule 1 to the Loan Agreement; and

(b) not more than 50% of the aggregate amount utilized for Sub-projects in any one Project Sector shall be in respect of Sub-projects located in the capital city of the Region.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Rostov Region or Novosibirsk Region shall have failed to perform any of its obligations under the Rostov Subsidiary Loan Agreement or the Novosibirsk Subsidiary Loan Agreement, respectively; and

(b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that Rostov Region or Novosibirsk Region will be able to perform its obligations under the Rostov Subsidiary Loan Agreement or the Novosibirsk Subsidiary Loan Agreement, respectively.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified: the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

#### 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) at least one Subsidiary Loan Agreement has been executed and become effective in accordance with its terms; and

(b) the CPIU has been established with separate juridical status to coordinate Project related activities among other federal agencies, ministries and regions, and a director and key personnel of the CPIU have been appointed with qualifications and experience satisfactory to the Bank.

Section 6.02. The following is specified as an additional matter, within the

meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank: that the Subsidiary Loan Agreement referred to in Section 6.01 (a) has been duly authorized or ratified by the Borrower and the Region, and is legally binding upon the Borrower and the Region in accordance with its terms.

Section 6.03. 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

##### Representatives 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  
Ul Ilyinka 9  
103097 Moscow  
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:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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/ Yuli Vorontsov

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Authorized Representative

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) Civil Works		75%
(a) Part A 1 of the Project	37,630,000	
(b) Part B 1 of the Project	37,060,000	
(c) Part A 2 of the Project	12,630,000	
(d) Part B 2 of the Project	12,630,000	
(e) Part C of the Project	50,000	
(2) Goods		100% of foreign expenditures
(a) Part A 1 of the Project	18,690,000	100% of local expenditures
(b) Part B 1 of the Project	19,650,000	(ex-factory cost) and 75% of local
(c) Part A 2 of the Project	5,800,000	expenditures for other items procured locally
(d) Part B 2 of the Project	5,800,000	
(e) Part C of the Project	60,000	
(3) Consultants' services		100% of foreign expenditures
(a) Part A 1 of the Project	8,350,000	65% of local expenditures
(b) Part B 1 of the Project	9,230,000	
(c) Part C of the Project	4,620,000	
(4) Training		100%
(a) Part A 1 of the Project	2,230,000	
(b) Part B 1 of the Project	2,600,000	
(c) Part C of the Project	170,000	
(5) Health Sector Consumables		100% of foreign expenditures
(a) Part A 1 of the Project	5,150,000	75% of local expenditures
(b) Part B 1 of the Project	5,850,000	
(6) Incremental Operating Costs		100%



(a) Part A 1 of the Project	620,000	
(b) Part B 1 of the Project	620,000	
(c) Part C of the Project	760,000	
(7) Refunding of Project Preparation Advance	1,500,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated		
(a) Part A1 of the Project	4,000,000	
(b) Part B1 of the Project	4,050,000	
(c) Part C of the Project	250,000	
	200,000,000	
TOTAL	=====	

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;

(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;

(c) the term "health sector consumables" means incremental costs of consumable health supplies required for the operation of the equipment provided under the Project; and

(d) the term "incremental operating costs" means incremental operating costs (other than health sector consumables), utilities and maintenance; office accommodation and equipment, accessories, maintenance and consumable supplies; advertising, printing, communications and transportation costs.

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

(a) any payments made for expenditures under Categories (1) (a) and (b), (2) (a), (b) and (e), (3) (a), (b) and (c) and (4) (a), (b) and (c) under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$15,000,000, may be made in respect of Categories (1) (a) and (b), (2) (a), (b) and (e), (3) (a), (b) and (c) and (4) (a), (b) and (c) on account of payments made for expenditures before that date but after October 1, 1995;

(b) any payments made for expenditures under Categories (1) (c) and (d) and (2) (c) and (d) under the Project prior to the date of this Agreement;

(c) any payments made for expenditures under Categories (1) (a), (b), (c) and (d), (2) (a), (b), (c) and (d), (3) (a) and (b), (4) (a) and (b), (5) (a) and (b), (6) (a) and (b) and (8) (a) and (b) to a Region unless the Subsidiary Loan Agreement between the Borrower and the Region has become effective; and

(d) any payments made for expenditures under Categories (1)(c) and (d) and (2)(c) and (d) under the Project unless the Sub-loan for such Sub-project shall have been approved by the Bank and such expenditures 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 paragraph 2 of Part II of Schedule 7 to this Agreement in respect of such Sub-loan.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under contracts not exceeding \$50,000 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 to: (i) reduce the deterioration of health, education and water supply and sanitation facilities in Rostov and Novosibirsk Regions; (ii) improve the efficiency in managing public resources in Rostov and Novosibirsk Regions; (iii) foster private sector development in Rostov and Novosibirsk Regions; (iv) promote participation, including non-governmental participation, in decision-making in the education, health and water supply and sanitation sectors in Rostov and Novosibirsk Regions; and (v) monitor the effectiveness of new financial, procurement, and participatory practices in the education, health and water supply and sanitation sectors and disseminate the results in order to promote the use of these practices in similar activities in the territory of the Borrower.

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

PART A: ROSTOV REGION

Part A 1

Provision of goods and services and carrying out of works for Sub-projects through Sub-loans, which have been identified by the Borrower as at the date of this Agreement and have been approved by the Bank, comprising:

#### 1. Education

(i) Rehabilitation of school facilities and provision of equipment to schools in Rostov Region providing general education, the expansion of capacity in schools in Rostov Region and the construction of new schools in Rostov Region; and

(ii) provision of training and consultants' services to improve project management in school facilities, including the identification, preparation and implementation of Sub-projects.

#### 2. Health

(i) Provision of goods and carrying out of works for the rehabilitation and upgrading of the core functions of selected municipal and emergency hospitals and polyclinics in Rostov Region;

(ii) provision of consultants' services to assist in developing new financial mechanisms in Rostov Region on a pilot basis in order to improve the process of selecting and financing medical investments; and

(iii) provision of training to selected health sector specialists in Rostov Region and consultants' services for the design and supervision of project facilities.

#### 3. Water Supply and Sanitation

(i) Provision of goods and carrying out of works for the rehabilitation, refurbishment and renewal of the existing water supply and sanitation infrastructure in Rostov Region and for construction of new water supply and sanitation

infrastructure in Rostov Region;

(ii) provision of consultants' services and training in all aspects of design, construction, operation and institutional and financial management of water supply and sanitation services; and

(iii) provision of consultants' services to appraise the management and operation of the structure and activities of the water supply and sanitation sectors.

#### 4. Budget and Expenditure Management

Provision of consultants' services, training and goods to assist regional and sub-regional governments in improving budgetary management and expenditure and to reform financial and managerial practices.

#### 5. Project Bureau

Support to the Project Bureau in Rostov through the provision of consultants' services, training and goods.

#### Part A 2

Provision of goods and carrying out of works for Sub-projects through Sub-loans within the education, health and water supply and sanitation sectors in Rostov Region.

#### PART B: NOVOSIBIRSK REGION

#### Part B 1

Provision of goods and services and carrying out of works for Sub-projects through Sub-loans, which have been identified by the Borrower as at the date of this Agreement and have been approved by the Bank, comprising:

##### 1. Education

(i) Rehabilitation of school facilities and provision of equipment to the schools in the Novosibirsk Region providing general education and the construction of new schools in Novosibirsk Region;

(ii) provision of training and consultants' services to improve project management in school facilities, including the identification, preparation and implementation of Sub-projects; and

(iii) provision of equipment, training and consultants' services to develop a management information system (MIS Program) for school facilities to improve the planning, management and operation of school facilities in the Novosibirsk municipality.

##### 2. Health

(i) Provision of goods and carrying out of works for the rehabilitation and upgrading of the core functions of selected municipal and emergency hospitals and polyclinics in Novosibirsk Region;

(ii) provision of consultants' services to assist in developing new financial mechanisms on a pilot basis in order to improve the process of selecting and financing medical investment; and

(iii) provision of training to selected health sector specialists in Novosibirsk Region and consultants' services for the design and supervision of project facilities.

##### 3. Water Supply and Sanitation

(i) Provision of goods and carrying out of works for the rehabilitation, refurbishment and renewal of the existing water supply and sanitation infrastructure in Novosibirsk Region and for construction of new water supply and sanitation

infrastructure in Novosibirsk Region;

(ii) provision of consultants' services and training in all aspects of design, construction, operation and institutional and financial management of water supply and sanitation services to establish financial mechanisms to achieve cost-recovery from the major vodokanals; and

(iii) provision of consultants' services to appraise the management and operation of the structure and activities of the water supply and sanitation sectors.

#### 4. Budget and Expenditure Management

Provision of training, consultants' services and goods to assist regional and sub-regional governments in improving budgetary management and expenditure and to reform financial and managerial practices.

#### 5. Project Bureau

Support to the Project Bureau in Novosibirsk through the provision of consultants' services, training and goods.

#### Part B 2

Provision of goods and carrying out of works for Sub-projects through Sub-loans within the education, health and water supply and sanitation sectors in Novosibirsk Region.

#### Part C

#### CPIU and Monitoring and Evaluation

Support to the CPIU through the provision of consultants' services, training and goods and provision of consultants' services to monitor and evaluate the Project, to prepare the Project Manual and to assist in the replication of the Project in other regions.

\* \* \*

The Project is expected to be completed by June 30, 2002.

#### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 15 and October 15 beginning October 15, 2001 through October 15, 2012	8,335,000
On April 15, 2013	8,295,000

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\* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

###### Part B: International Competitive Bidding

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

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

3. Notwithstanding the provisions of paragraph 1 of Part C of this Schedule 4, items or groups of items for works for the installation of chlorination systems in Novosibirsk Region and for installation of specific water supply equipment in Rostov Region, involving installation techniques or equipment estimated to cost more than the equivalent of \$1,000,000 per contract shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

###### Part C: Other Procurement Procedures

###### National Competitive Bidding

1. Except as provided in paragraph 3 of Part B of this Schedule 4, items or groups of items for works estimated to cost the equivalent of \$2,000,000 or less per contract up to an aggregate amount not to exceed \$58,000,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Items or groups of items for goods (other than vehicles) estimated to cost the equivalent of \$300,000 or less per contract up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

###### National Shopping

3. Items or groups of items for goods estimated to cost the equivalent of less than \$50,000 per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the

Guidelines.

4. Contracts for cesspit emptying vehicles up to an aggregate amount not to exceed the equivalent of \$800,000 may be awarded in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Direct Contracting

5. Contracts for specialized medical equipment which are of a proprietary nature not to exceed the equivalent of \$500,000 in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (i) each contract estimated to cost the equivalent of \$1,000,000 or more; (ii) each contract awarded on the basis of Part A of this Schedule; and (iii) each of the first two contracts awarded on the basis of Parts C1 and C3 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

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

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

#### SCHEDULE 5

##### Implementation Program

1. The Borrower shall establish and maintain the CPIU in Moscow with separate juridical status with terms of reference satisfactory to the Bank and shall ensure

that the CPIU is adequately staffed by key personnel with qualifications, terms of reference and experience satisfactory to the Bank.

2. The Borrower, through MINNAT, shall establish and maintain an inter-ministerial working group with representatives from the Ministries of Education, Health, Construction, Finance, Economy and Environment and from each Region, chaired by a representative from MINNAT and attended by the director of the CPIU, to oversee the overall implementation of the Project.

3. The Borrower shall, prior to September 1, 1998, and in consultation with the Project Bureau in each Region, prepare and submit the Project Manual to the Bank for its approval.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the 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 \$15,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$5,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$20,000,000.

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

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

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

(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;

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the 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

Terms and Conditions of On-lending

Part I: Principal Terms and Conditions of Subsidiary Loan Agreements

The following principal terms and conditions shall apply for purposes of the Subsidiary Loan Agreements entered into pursuant to Section 3.01 (c) of this Agreement:

Section A: Terms

1. The principal amount of each Sub-loan to a Region shall be denominated and be the equivalent in Dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid on account of goods or services financed out of the proceeds of the Loan.
2. The Region shall pay interest on the principal amount of the Sub-Loan withdrawn and outstanding from time to time, at a floating rate up to the equivalent of 250 basis points above the interest rate determined in accordance with the provisions of Section 2.05 of this Agreement.
3. The amount of the Sub-Loan shall be repaid by the Region over a term of twelve (12) years, inclusive of a grace period of three (3) years.

Section B: Obligation to Carry Out Project Activities

1. The Region shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out, with the Borrower's assistance, the activities related to the Region as described in Part A or Part B of the Project, as the case may be, with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for its Part of the Project.
2. The Region shall carry out its respective Part of the Project in accordance with a Project Implementation Schedule agreed with the Bank.
3. The Region shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Region shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.
4. (a) The Region shall, at the request of the Bank, exchange views with the Bank with regard to the progress of its respective Part of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.  
(b) The Region shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its respective Part of the Project, the accomplishment of the purposes of the Loan, or the performance by the Region of its obligations under the Subsidiary Loan Agreement.

Section C: Financial Covenants

1. (a) The Region shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of its respective Part of the Project of the departments or agencies of the Region responsible for carrying out its respective Part of the Project.  
(b) The Region shall:
  - (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each

fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (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; and

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

#### Section D: Implementation Conditions

1. The Borrower shall cause each Region to:

(a) establish, as a condition to effectiveness of its Subsidiary Loan Agreement, and maintain, a Project Bureau in the capital city of the Region with separate juridical status, and shall ensure that the Project Bureau is at all times staffed by key personnel with qualifications, terms of reference and experience satisfactory to the Bank;

(b) establish, as a condition to effectiveness of its Subsidiary Loan Agreement, and maintain an Advisory Board chaired by the First Deputy Governor of the Region, with board members selected from representatives of the local community, including, but without limitation, trade unions, local government beneficiary groups and non-governmental organizations, and with ex-officio members from MINNAT, CPIU, and the Project Bureau, to meet and review the implementation of the Project Sub-Projects on a semi-annual basis until June 1, 1998; and

(c) within one month of the date of effectiveness of the relevant Subsidiary Loan Agreement, open two project bank accounts in a commercial bank: (i) in local currency; and (ii) in dollars or any other freely exchangeable currency and, until completion of the Project, maintain such accounts.

2. Each Region shall, at periodic intervals agreed with the Borrower and the Bank, deposit into its Project Account held in local currency, such amounts in local currency as shall be agreed under a payment schedule agreed annually with the Borrower and the Bank.

3. Except as the Bank shall otherwise agree, each Region shall select and appraise sub-projects to be included in its respective Part of the Project in accordance with criteria and procedures agreed with the Bank.

4. Except as the Bank shall otherwise agree, the Region shall make Sub-loans under the Project in accordance with the procedures and on the terms and conditions set forth or referred to in Part II of this Schedule 7.

5. Each Region shall, by December 31, 1998, carry out a mid-term review, in consultation with the Bank, for evaluating the overall progress in the implementation of its respective Part of the Project and adopting such measures as may be necessary to resolve any issues in respect thereof.

6. Each Region shall, by April 1, 1998, submit to the CPIU, a draft operational manual setting out criteria and procedures for selecting and appraising Sub-projects including the criteria and procedures agreed with the Bank under paragraph 3 of this Part I D of Schedule 7.

#### Part II: Principal Terms and Conditions of Sub-loans

1. No expenditures for goods, works or services required for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Sub-loan for such Sub-project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Bank shall have

received the application and information required under paragraph 2 of Part II of this Schedule in respect of such Sub-loan.

2. (a) When presenting a Sub-loan to the Bank for approval, each Region shall furnish to the Bank an application, in form and substance satisfactory to the Bank, together with: (i) an appraisal of the Sub-Project, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan or of repayment of the amount of the Loan to be used for the Sub-Loan; (iii) with respect to a Sub-borrower in the water sector, financial projections, acceptable to the Bank, showing that the projected revenues of the Sub-borrower (including budgetary subsidies) shall cover its costs of operation and maintenance and showing, to the extent permitted under the laws of the Borrower, a plan for the progressive reduction in budgetary subsidies, leading to the projected elimination of such subsidies in 2005; and (iv) such other information as the Bank shall reasonably request.

(b) Applications and requests made pursuant to the provisions of sub-paragraph (a) of this paragraph shall be presented to the Bank on or before July 1, 2000.

3. Sub-loans shall be made on terms whereby the Region shall obtain, by written contract with the Sub-borrower or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Region, including, in the case of any Sub-loan the right to:

(a) require the beneficiary to carry out and operate the Sub-Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods, works and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Sub-Project;

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

(d) obtain all such information as the Bank or the Region shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the beneficiary and to the benefits to be derived from the Sub-Project; and

(e) suspend or terminate the right of the beneficiary to the use of the proceeds of the Loan upon failure by such beneficiary to perform its obligations under its contract with the Region.

