

CONFORMED COPY

LOAN NUMBER 4611 RU

Loan Agreement

(Northern Restructuring Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 11, 2001

LOAN NUMBER 4611 RU

LOAN AGREEMENT

AGREEMENT, dated July 11, 2001, between the RUSSIAN FEDERATION (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter dated April 26, 2001, describing a program of policies and actions designed to support economic restructuring of the Borrower's Northern territories (the Policy Letter) and declaring the Borrower's commitment to the execution of the above program;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), 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 (as amended through October 6, 1999) (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) "Agency Agreement" means the agreement between MOF, MEDT and FER, referred to in Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Agency Agreement;

(b) "Beneficiaries" means any residents of the Participating Localities eligible according to the criteria referred to in the Government Decree on the Migration Assistance Program to be adopted in accordance with Section 6.01 (c) of this Agreement, and their households, who shall have elected to participate in the Migration Assistance Program under Part A of the Project, and for whose benefit any amounts shall be payable under Migration Assistance Allowances granted in accordance with the terms and conditions of such program;

(c) "Certificate" means the certificate referred to in paragraph 2 (a) of the Annex to Schedule 5 to this Agreement.

(d) "Environmental Management Plan" means the plan setting forth the actions required to mitigate the adverse environmental impacts resulting from the implementation of the Project, as referred to in paragraph 6 of Schedule 5 to this Agreement;

(e) "Federal Treasury" means the Borrower's integrated system of the Federal Treasury, or any successor or successors thereto;

(f) "FER" means the Non-Commercial Foundation for Enterprise Restructuring and Financial Institutions Development, a legal entity organized and established pursuant to the Borrower's law "On Non-Commercial Organizations", dated January 12, 1996, and operating on the basis of its Charter dated July 5, 1996, as amended on June 2, 1997, registered with the Ministry of Justice on June 27, 1997, or any successor or successors thereto;

(g) "Implementation Agreements" means the agreements to be entered into between MOF, MEDT, and FER on one side and each respective Participating Locality and respective Regional Project Participant on the other side, pursuant to Section 6.01 (a) of this Agreement, as the same agreements may be amended from time to time, and such term includes all schedules and agreements supplemental to the Implementation Agreements; "Implementation Agreement" means each and any such agreement;

(h) "IMWG" means the Inter-Ministerial Working Group of the Borrower, established by the Government of the Borrower pursuant to Protocol No. â-12-19ið dated December 4, 1998, and referred to in paragraph 3 of Schedule 5 to this Agreement;

(i) "Instructions to the Participating Localities" means the guidelines and procedures for the implementation of the Project approved by the IMWG, defining the responsibilities of the Participating Localities and LPIUs under the Project, as the same may be amended from time to time;

(j) "Local Restructuring Plan" means, for each Participating Locality, a list of restructuring measures designed to enable the Participating Locality to realize the economic benefits of the Project, and the timetable for their implementation, which shall have been adopted by the Participating Locality, and which are referred to in paragraph 7 of Schedule 5 to this Agreement;

(k) "LPIU" means the Local Project Implementation Unit established in each Participating Locality;

(l) "MEDT" means the Borrower's Ministry of Economic Development and Trade,

or any successor or successors thereto;

(m) "Migration Assistance Allowance" means an allowance granted to a Beneficiary in accordance with the eligibility criteria, rules and procedures which shall have been established pursuant to the Government Decree on the Migration Assistance Program to be adopted in accordance with Section 6.01 (c) of this Agreement;

(n) "Migration Assistance Program" means the program to be established by the Borrower pursuant to the Government Decree on the Migration Assistance Program to be adopted in accordance with Section 6.01 (c) of this Agreement, for the purpose of providing Migration Assistance Allowances under Part A of Schedule 2 to this Agreement;

(o) "MOF" means the Borrower's Ministry of Finance, or any successor or successors thereto;

(p) "Operational Manual" means the manual approved by IMWG containing the guidelines and procedures for the implementation of the Project, as referred to in paragraph 2 of Schedule 5 to this Agreement, as the same may be amended from time to time;

(q) "Participating Locality" means any of the following: the City of Norilsk, the City of Vorkuta and the Susuman District of Magadan Oblast; and "Participating Localities" means, collectively, the City of Norilsk, the City of Vorkuta and the Susuman District of Magadan Oblast;

(r) "Project Management Report" means each report referred to and prepared in accordance with Section 4.03 of this Agreement;

(s) "Regional Project Participant" means any of the following: Komi Republic, Magadan Oblast, and other Regional Project Participants which may be agreed upon between the Borrower and the Bank; and "Regional Project Participants" mean, collectively, Komi Republic and Magadan Oblast;

(t) "Ruble" means the currency of the Borrower;

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

(v) "Sberbank" means the Savings Bank of the Russian Federation, a commercial bank organized and operating under the laws of the Borrower on banks and banking activity, and acting on the basis of its charter registered in the Central Bank of the Russian Federation on June 20, 1991, Registration # 1481; and

(w) "Value Date" means the date when the Certificate submitted by a Beneficiary is assigned a Ruble value by Sberbank in accordance with the terms and conditions of the Migration Assistance Program;

Section 1.03. Each reference in the General Conditions to the "Project implementation entity" shall be deemed as a reference to FER.

## 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 eighty million Dollars (\$80,000,000).

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, services and Migration Assistance Allowances required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in

Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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 September 30, 2005, 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. 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 2.06. (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 2.07 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) three-fourths of one percent ( $3/4$  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 2.06, 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 the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of

its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. (a) Without limitation upon the provisions of Section 4.01 of the General Conditions, and except as the Borrower and the Bank shall otherwise agree, the Bank may, upon the Borrower's request, reimburse the Borrower from the Loan Account in Dollars, in respect of the expenditures incurred by the Borrower in Rubles for financing the Migration Assistance Allowances.

(b) For the purposes of paragraph (a) of this Section, the exchange rate to be used shall be:

- (i) in the case of withdrawal applications received by the Bank within 120 days of the Value Date, the exchange rate in effect on the Value Date in accordance with the terms and conditions of the Migration Assistance Program;
- (ii) in the case of withdrawal applications received by the Bank outside the 120 day period, the exchange rate, as determined by the Bank in its common data store, as at the date when the withdrawal from the Loan Account is made.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, with the assistance of FER, with due diligence and efficiency and in conformity with appropriate administrative, financial, and environmental practices and with the undertakings set forth in the Policy Letter, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall cause the Participating Localities and the Regional Project Participants to carry out their respective obligations in respect of the implementation of the Project, in accordance with the provisions of their respective Implementation Agreements, with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall cause the Participating Localities and Regional Project Participants to provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project, and shall cause the Participating Localities and Regional Project Participants to carry out their respective obligations in respect of the implementation of the Project, in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

(a) enter into the Agency Agreement with FER and into Implementation Agreements with each Participating Locality and Regional Project Participant, all under terms and conditions satisfactory to the Bank; and

(b) exercise its rights under the Agency Agreement and each respective Implementation Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project, and except as the Bank shall otherwise agree, shall not assign, amend, abrogate or waive the Agency Agreement

or any of the Implementation Agreements, or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of 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 3.04. 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 strategy for the application of the lessons of experience of the Project in governmental policy; and

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

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) 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 paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, 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, 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 (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 4.02. (a) The Borrower shall cause FER to maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause FER to:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 said financial statements reflecting the records and accounts referred to in paragraph (a) of this Section 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 said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time have reasonably requested.

Section 4.03. The Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, a Project Management Report for such period, which:

(a) (i) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (ii) explains variances between the actual and previously forecast implementation targets; and

(c) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

## ARTICLE V

### Remedies of the Bank

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

(a) the Governmental Decree on the Migration Assistance Program referred to in Section 6.01 (c) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower or of the Participating Localities or Regional Project Participants to

perform any of their obligations under this Agreement;

(b) any Local Restructuring Plan shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Participating Locality or Regional Project Participant to perform its obligations under the Implementation Agreement or to achieve the objectives of the Project;

(c) the Borrower shall have failed to implement any of the substantive undertakings set forth in the Policy Letter or shall have taken any actions which shall make it improbable that the program set forth in the Policy Letter, or a significant part thereof, will be carried out;

(d) the Operational Manual or the Instructions to the Participating Localities shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform its obligations under this Agreement, or of any Participating Locality or Regional Project Participant to perform its obligations under the Implementation Agreement or to achieve the objectives of the Project;

(e) FER shall have failed to perform any of its obligations under the Agency Agreement;

(f) any Participating Locality or Regional Project Participant shall have failed to perform any of its obligations under its respective Implementation Agreement; and

(g) the Agency Agreement or any of the Implementation Agreements shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the FER or of any Participating Locality or Regional Project Participant, respectively, to carry out their obligations under the Project in accordance with the provisions of this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified, namely:

(a) any of the events specified in paragraphs (e) and (f) 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; and

(b) any of the events specified in paragraphs (a), (b), (c), (d) and (g) of 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) Implementation Agreements, satisfactory to the Bank, have been executed on behalf of the Borrower represented by MOF, MEDT and FER, and each respective Participating Locality and respective Regional Project Participant;

(b) the Agency Agreement, satisfactory to the Bank, has been executed on behalf of the Borrower and FER;

(c) the Government Decree on the Migration Assistance Program, satisfactory to the Bank, has been adopted by the Borrower; and

(d) an agreement on housing certificate processing, satisfactory to the Bank, has been executed on behalf of the Borrower and Sberbank.



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.

Section 6.03. The following are specified as additional matters, 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:

(a) that the Agency Agreement and Implementation Agreements have been duly authorized or ratified by their respective parties and are legally binding upon all the parties to those agreements;

(b) that the issuance of certificates for Housing Allowances, referred to in paragraphs 1 and 2 of the Annex to Schedule 5 to this Agreement, in Dollar denomination, and procedures for redeeming said certificates by the Beneficiaries, are in accordance with the Borrower's relevant laws and regulations currently in effect.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower or an authorized deputy Minister of Finance for international financial relations 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  
Ilyinka Street 9  
103097 Moscow  
Russian Federation

Telex:

Facsimile:

112008

(7-095) 915-5887

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:

Facsimile:

INTBAFRAD

Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

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 City of Norilsk, Russian Federation, as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ V.B. Khristenko

Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ James Wolfensohn

President

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 Dollars)	% of Expenditures to be Financed
(1) Goods	60,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(2) Consultants' Services and Training	3,740,000	100%
(3) Migration Assistance Allowances Paid in respect of:		100%
(a) City of Vorkuta	16,380,000	
(b) City of Norilsk	38,050,000	
(c) Susuman District of Magadan Oblast	14,850,000	
(4) Incremental Operating Costs		100%
(a) in support of FER	3,920,000	
(b) in support of LPIUS	1,730,000	
(5) Front-end Fee	800,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	470,000	
Total	80,000,000	

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;

(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 "Incremental Operating Costs" comprises (i) salaries and benefits of FER staff and consultants employed for the purposes of Project management (all within a range for each position acceptable to the Bank), utility charges at a

rate not to exceed the rate in domestic prices payable by comparable organizations, locally-procured office equipment and supplies, costs payable in connection with rental of office space, maintenance of office equipment, systems and facilities, insurance, training, project-related auditing services, conferences, travel expenses, organization and attendance of conferences and seminars, dissemination of project progress information, and other ordinary and necessary costs payable by FER on account of Project implementation, that would be payable by entities similarly situated on the territory of the Borrower and customarily regarded as a cost of doing business, including administrative costs such as travel allowances, communications and related expenses; provided, however, that the expenditures hereunder shall be as set forth in the approved budgets which shall have been adopted pursuant to the provisions of paragraph 4 of Schedule 5 to this Agreement and; (ii) reasonable and necessary expenditures incurred in support of operations of the LPIUs, which would not have been incurred in the absence of the Project, on account of the carrying out of the LPIUs' activities related to Project implementation, management and monitoring, including: consultants' services, lease of office space, office equipment and suppliers and office furniture, communication, attendance of conferences and seminars, transportation and travel expenses including Project-related travel costs, all within the limits of the annual Project budget approved by the IMWG and the Bank as referred to in paragraph 4 of Schedule 5 to this Agreement;

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

(a) payments made for expenditures prior to the date of this Agreement;

(b) payments made for expenditures under Category (3)(a) until the LPIU has been established within the City of Vorkuta;

(c) payments made for expenditures under Category (3)(b) until the LPIU has been established within the City of Norilsk; and

(d) payments made for expenditures under Category (3)(c) until: the LPIU has been established within the Susuman District of Magadan Oblast.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each, (b) services under contracts costing less than \$100,000 equivalent each for consulting firms and \$50,000 each for individual consultants, (c) Migration Assistance Allowances under Category (3); and (d) Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower, including but not limited to the following: statements of expenditures shall state, for each payment made for a Migration Assistance Allowance, the date when the Certificate was submitted by the Beneficiary (the Value Date), the nominal Dollar amount of the Certificate, the exchange rate applied by Sberbank on the Value Date, and the Ruble amount deposited by the Federal Treasury to the Beneficiary's designated account.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: test measures that will allow Participating Localities to realize the economic benefits of restructuring and facilitate the implementation of sustainable municipal policies; and thereby to assist the Borrower in the development of a national strategy for restructuring of the economy of the northern areas.

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: Migration Assistance Program

Implementation of the Migration Assistance Program, including provision of Migration Assistance Allowances to Beneficiaries in the Participating Localities to

facilitate voluntary out-migration, and a public information campaign.

Part B: Local Restructuring Support

- (1) Provision of technical assistance to Participating Localities and Regional Project Participants for institutional reforms in housing management;
- (2) Provision of technical assistance to Participating Localities and Regional Project Participants to ensure compliance with the Environmental Management Plan in the demolition of abandoned and dilapidated housing and other facilities;
- (3) Provision of training in the area of municipal management to the staff of the Participating Localities and Regional Project Participants; and
- (4) Provision of technical assistance to Participating Localities and Regional Project Participants in other critical areas of municipal policy related to local restructuring, as will be identified during the Project implementation.

Part C: Monitoring and Evaluation

Carrying out of surveys and studies to monitor the implementation of the Project, to evaluate the economic outcomes of restructuring, and social aspects of out-migration.

Part D: Federal Policy Support

- (1) Provision of advisory services and analysis on legal, economic, fiscal and social aspects of the Borrower's policy reforms in relation to its northern areas.
- (2) Development of a national information system on the housing market.
- (3) Dissemination of Project outcomes.

Part E: Project Management and Coordination

Support for the operations of Participating Localities and Regional Project Participants related to Project management, including financing of incremental operating costs of the FER and LPIUs.

\* \* \*

The Project is expected to be completed by March 31, 2005.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
On each January 15 and July 15 beginning January 15, 2007 through January 15, 2018	3,335,000
On July 15, 2018	3,295,000

---

\* 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

Section I. Procurement of Goods

Part A: General

Goods 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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines), and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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.

Part C: Other Procurement Procedures

1. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, 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.

2. Direct Contracting

Services for the printing of housing certificates estimated to cost the equivalent of \$15,000 or less in the aggregate may be procured under contracts awarded 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 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 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

(a) With respect to each contract procured under Parts B and C.2 and the first two contracts under Part C.1 hereof, 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audit of accounts may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under small consulting services contracts and training contracts, estimated to cost the equivalent of \$100,000 or less per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

### 3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

#### Part D: Review by the Bank of the Selection of Consultants

##### 1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

##### 2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

##### 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 Consultant Guidelines shall apply.

#### SCHEDULE 5

##### Implementation Program

##### 1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project, the progress of the Borrower in carrying out the actions and policies referred to in the Policy Letter, and the progress of the Participating Localities and Regional Project Participants in carrying out their respective Local Restructuring Plans, and other matters necessary for the achievement of the Project objectives;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by June 1 of each year starting in the year 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, 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 of each year starting in the year 2003, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient carrying out of the Project, of the action and policies referred to in the Policy Letter and in the Local Restructuring Plans, and the achievement of

the Project objectives, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. The Borrower shall ensure the carrying out of the Project in accordance with the provisions of the Operational Manual, which shall contain the operational guidelines and procedures for the implementation of the Project.

3. During the execution of the Project, the Borrower shall maintain an inter-ministerial working group (the IMWG), comprising representatives of the Borrower's agencies as agreed upon with the Bank, which shall be responsible for the overall coordination and oversight of the Project, and approval of annual work programs and budgets related to Project implementation.

4. The Borrower shall cause FER to take all actions as required in accordance with the provisions of Section 3.01 and shall assign to FER, under the Agency Agreement, the responsibility for the overall Project implementation, including: (i) preparation and submission to the Bank by December 1 of each year, of draft annual work programs and associated budgets for the Project (including incremental operating costs of FER and LPIUs), to be reviewed and agreed upon by IMWG and the Bank; (ii) preparation of bidding and contract documents and the undertaking of procurement procedures under the Project; (iii) maintenance of Project records and accounts and arranging for the audit thereof; (iv) preparation and furnishing to the Bank progress reports and Project Management Reports; and (v) coordination of the implementation activities with LPIUs.

5. The Borrower shall cause the Participating Localities to:

(a) establish and maintain, during the execution of the Project, LPIUs with staff and resources as defined in the respective Implementation Agreements, and to observe terms of reference acceptable to the Bank; and

(b) maintain, during the execution of the Project, supervisory/coordination councils consisting of representatives of major stakeholders in the Participating Localities which supervisory/coordination councils shall be responsible for overseeing the implementation of the Project in their respective localities, monitoring the activities of their respective LPIUs and cooperation with IMWG and FER; and

(c) cause the Participating Localities to carry out their respective activities under the Project in accordance with the Instructions to the Participating Localities.

6. The Borrower shall ensure that Project activities are carried out in compliance with the provisions and mitigation measures set forth in the Environmental Management Plan.

7. The Borrower shall:

(a) take all appropriate actions to enable the Participating Localities to implement their respective Local Restructuring Plans, in accordance with the timetable set forth therein; and

(b) ensure that no commitments shall be made under the Migration Assistance Program, or payments made under Migration Assistance Allowances thereunder, for any Beneficiaries defined as conditional Beneficiaries for each Participating Locality in the Government Decree on the Migration Assistance Program referred to in Section 6.01 (c) of this Agreement, until the respective Participating Locality has established, in accordance with criteria established by the Borrower acceptable to the Bank, that a level of cost recovery for provision of housing and communal services of 40% has been achieved in the Participating Locality.

8. The Borrower shall carry out, and shall cause the Participating Localities and Regional Project Participants to carry out, Part A of the Project in accordance with the Government Decree on the Migration Assistance Program referred to in Section 6.01 (c) of this Agreement and the provisions of the Annex to this Schedule.



9. The Borrower, through FER, shall complete and submit to the Bank annual progress reports on the implementation of the Project, in the format and substance satisfactory to the Bank, by March 31 of each year starting in the year 2002.

Annex To SCHEDULE 5

Procedures for the Payment of the Migration Assistance Allowances

1. The Borrower shall provide Migration Assistance Allowances:

(a) to all Beneficiaries under the Project - for financing the purchase of a housing unit in the place where the Beneficiary intends to establish his new residence (a Housing Allowance for the purposes of this Annex); and

(b) without limitation upon the provisions of sub-paragraph (a) above, to Beneficiaries in the Susuman District of Magadan Oblast - for financing a portion of transportation costs associated with the move of the Beneficiary to the new residence of his choice (a Transportation Allowance for the purposes of this Annex).

2. The Borrower shall ensure that payments for the Housing Allowance shall be made to Beneficiaries as follows:

(a) Following approval of the application from a Beneficiary for the Migration Assistance Allowance, a certificate shall be issued to the Beneficiary, confirming his entitlement to the Housing Allowance, in a specific amount and valid for a specific period of time, and subject to any stated conditions, in conformity with the provisions of the Government Decree on the Migration Assistance Program referred to in Section 6.01 (c) of this Agreement, the provisions of the Operational Manual and Instructions to the Participating Localities.

(b) The Beneficiary shall furnish the certificate referred to in sub-paragraph (a) above to the local branch of Sberbank in the region where the respective Beneficiary intends to establish his new residence, together with any other information necessary to enable Sberbank to open the designated account in favor of the Beneficiary.

(c) Upon signing and registering of a contract for the purchase of a housing unit in the place where the Beneficiary intends to establish his new residence, the Beneficiary shall submit the contract, which has been executed in accordance with the Borrower's laws and regulations, to the local branch of Sberbank referred to in sub-paragraph (b) of this paragraph.

(d) After examination of the contract, the respective local branch of Sberbank shall request the Federal Treasury to transfer an amount in Rubles equivalent to the amount of the Housing Allowance provided for in the Beneficiary's certificate.

(e) Upon receipt of funds, Sberbank shall make a subsequent transfer to the designated account of the Beneficiary referred to in sub-paragraph (b) of this paragraph.

(f) The Sberbank branch shall transfer the appropriate Ruble amount from the designated account of the Beneficiary to the account designated by the seller of the housing unit in accordance with the contract between the respective Beneficiary and the seller.

3. The Borrower shall ensure that payments for the Transportation Allowance shall be made to Beneficiaries in the Susuman District of Magadan Oblast as follows:

(a) A Beneficiary shall submit to the LPIU of the Susuman District an application indicating the type of transportation costs and the required amount to be paid from the Transportation Allowance.

(b) Upon approval of the Beneficiary's application, the LPIU shall transfer the amount of the approved Transportation Allowance to the designated transportation

agency.

(c) The municipal authorities of the Susuman District shall submit an application to the FER for reimbursement of the costs incurred for financing Transportation Allowances, at such intervals and under such procedures as shall be specified in the Implementation Agreement between the Borrower and the Susuman District of Magadan Oblast.

(d) The FER shall cause payments to be made for reimbursement of the costs incurred by the municipal authorities of the Susuman District for financing of the Transportation Allowances to the municipal authorities of the Susuman District of Magadan Oblast.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (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 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 \$500,000 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 \$4,000,000.

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, 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.



