

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4807-UA

Loan Agreement

(Social Assistance System Modernization Project)

between

UKRAINE

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 28, 2005

LOAN NUMBER 4807-UA

LOAN AGREEMENT

AGREEMENT, dated November 28, 2005, between UKRAINE (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 (the Project), has requested the Bank to assist in the financing of the Project.

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 September 1, 1999 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods, works or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item (goods, works or services) to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”;

- (b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Cooperation Agreement” means each agreement to be entered into by the MOLSP on the one hand, and the Council of Ministers of the Autonomous Republic of Crimea, *Oblast* state administration, and city state administrations of the City of Kyiv and Sevastopol on the other, for the purposes of: (i) transferring standard software, hardware, furniture and other goods, and provision of training on social issues; (ii) implementing the Subvention for Modernization of Local Social Welfare Offices (as hereinafter defined in paragraph (r) of this Section); and (iii) covering the reasonable expenditures incurred or to be incurred by Local Social Welfare Offices of rayon state administrations for renovation; by Regional Social Welfare Offices for installation of equipment, software and local networks, training of personnel, public communication campaigns, coordination and monitoring, and operating costs, all under Part A of the Project;

(b) “Eligible Categories” means Categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means the expenditures for goods, works, services (other than consultants’ services) and consultants’ services referred to in Section 2.02 of this Agreement;

(d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(f) “Local Social Welfare Office” means a department or division responsible for labor and social protection, which is a structural unit of *Rayon*, (as hereinafter defined in paragraphs (n) of this Section), city of Kyiv and city of Sevastopol district state administration, a city council, or a district council within a city as the case may be;

(g) “MOLSP” means the Borrower’s Ministry of Labor and Social Policy, established and functioning in accordance with the Decree of the President of Ukraine No. 1035 dated August 30, 2000, as amended from time to time;

(h) “Monitoring and Evaluation Indicators” means the agreed Project performance indicators set forth in a letter of even date herewith to be utilized by the Borrower to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(i) “Oblast” means each of the twenty-four (24) prime administrative-territorial units of the Borrower forming the territorial basis for organization and operation of the local government bodies and local self-governments, and consisting of a given number of *Rayons* (as hereinafter defined in paragraph (m) of this Section) and certain cities directly subordinated to the Oblast;

(j) “Procurement Plan” means the Borrower’s procurement plan, dated September 26, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding twelve (12) month periods (or longer) of Project implementation;

(k) “Project Operations Manual” means the manual developed by the MOLSP and caused to be adopted by the Borrower setting forth detailed Project objectives and description, its implementation strategy and plans, monitoring mechanisms of the Project implementation, and procedures for the disbursement, financial management and procurement aspects of the Project, including responsibilities of Local and Regional Social Welfare Offices, as the same may be updated and amended from time to time in accordance with the provisions of paragraph 1 of Section B of Schedule 5 to this Agreement;

(l) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Borrower pursuant to the Letter of Agreement No. P-4060-UA signed on behalf of the Bank on June 16, 2004, and on behalf of the Borrower on October 7, 2004;

(m) “*Rayon*” means the unit of the territory of an *Oblast* or the Autonomous Republic of Crimea and consisting of rural and urban settlements, subordinated to the *Rayon*;

(n) “Region” means twenty four (24) Oblasts, the Autonomous Republic of Crimea and the cities of Kyiv and Sevastopol;

(o) “Regional Social Welfare Office” means the Ministry of Labor and Social Policy of the Autonomous Republic of Crimea, the main Department of Labor and Social Protection of Population of *oblast* state administrations, the main Department of Social Protection of Kyiv City State Administration, the Department of Labor and Social Protection of Sevastopol City State Administration, as the case may be, which is a structural unit of the Council of Ministers of the Autonomous Republic of Crimea, oblast state administration, Kyiv or Sevastopol city state administration respectively;

(p) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(q) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(r) “State Statistics Committee of Ukraine” and “SSCU” mean the Borrower’s specially authorized central executive body responsible for the conducting of state statistical activity in the Borrower’s territory, established pursuant to the provisions of the Decree of the President of Ukraine No. 734/97 dated July 29, 1997 “On Establishment of the State Statistics Committee of Ukraine”, and functioning pursuant to provision of the Decree of the President of Ukraine No. 60/2004, dated January 19, 2004 “On the State Statistics Committee of Ukraine”, and the Law of Ukraine No. 2614-XII dated September 17 1992 “On the State Statistics”, in the new edition set forth by the Law of Ukraine No. 1922-III, dated July 13, 2000; and

(s) “Subvention for Modernization of Local Social Welfare Offices” means the amount consisting of Loan proceeds transferred or proposed to be transferred by the Borrower to Local Social Welfare Offices, as the case may be, approved by the Borrower’s Budget Law for each of the Fiscal Years 2006, 2007 and 2008 and used for the reasonable cost of refurbishment required by the Local Social Welfare Offices under Part A of the Project.

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 ninety-nine million four hundred thousand dollars (\$99,400,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower to cover expenditures made by Local Social Welfare Offices, as the case may be, under a Subvention for Modernization of Local Social Welfare Offices; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services (other than consultants’ services), consultants’ services and Operating Costs 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) 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, 2008 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 such 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 of the 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 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 May 15 and November 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.

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 through the MOLSP with due diligence and efficiency and in conformity with appropriate administrative, engineering, social assistance and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) 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 in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, services (other than consultants' services) 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall through the MOLSP update the Procurement Plan and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower through the MOLSP 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 Covenants

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

- (b) The Borrower, through the MOLSP, shall:
- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements,

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 the reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower, through the MOLSP, shall:

- (i) retain or cause to be retained, until at least one (1) year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 4 of Section B of Schedule 5 to this Agreement, the Borrower, through the MOLSP, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower, through the MOLSP, shall:

(a) not later than December 30, 2007, have the physical outputs and functional results under Part A of the Project audited for at least thirty percent (30%) of the local and regional social welfare offices on the basis of guidelines issued by the MOLSP and in accordance with terms of reference acceptable the Bank, by independent auditors acceptable to the Bank; and

(b) thereafter, furnish to the Bank as soon as available a report on such physical outputs and functional results, in scope and detail satisfactory to the Bank.

Section 4.04. The Borrower, through the MOLSP, shall:

(a) have the internal control framework, the operational processes and procedures followed under the Project, audited for each Fiscal Year (or other period agreed to by the Bank), in accordance with terms of reference and by independent auditors both acceptable to the Bank; and

(b) 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 (or such other period agreed to by the Bank): (A) certified copies of the assessment of the internal control framework, the operational processes and procedures referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such processes and procedures by said auditors, in scope and detail satisfactory to the Bank, as to whether they provide the Borrower adequate accounting, internal control and financial reporting as intended for the Project; and

(c) furnish to the Bank such other information concerning such internal control framework, operational processes and procedures, and the audit of such internal control framework, operational processes and procedures, and concerning said auditors, as the Bank may from time to time reasonably request.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Borrower has adopted the Project Operations Manual in form and substance satisfactory to the Bank;

(b) that the State Budget Law of Ukraine for the Year 2006 containing the allocations of the Subvention for Modernization of Local Social Welfare Offices satisfactory to the Bank, shall has been published; and

(c) that the Borrower has finalized and operationalized the financial monitoring system, consolidating project implementation data, including the data from Local and Regional Social Welfare Offices satisfactory to the Bank.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
12/2 Hrushevsky St.
Kyiv, 01008
Ukraine

Telex:

131450

Facsimile:

(380-44) 201-5685
(380-44) 253-8243

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(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 Kyiv, Ukraine, as of the day and year first above written.

UKRAINE

By /s/ Ivan Yakovych Sakhan
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Paul Bermingham
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

<u>Category</u>	Amount of the Loan Allocated (Expressed in dollars)	% of Expenditures to be financed
(1) Goods, works, services (other than consultants' services), consultants' services, training, study tours and Operating costs	77,311,500	100%
(2) Subvention for Modernization of local social welfare offices	9,900,000	100%
(3) Refunding of Project Preparation Advance	2,000,000	Amounts due pursuant to Section 2.02 (b) of this Agreement
(4) Front-end fee	248,500	Amount due under Section 2.04 of this Agreement
(5) Unallocated	<u>9,940,000</u>	
TOTAL	<u>99,400,000</u>	

2. For the purposes of this Schedule, the term "Operating costs" means expenditures incurred to finance the reasonable and necessary expenses incurred by the MOLSP, and Regional Social Welfare Offices for the operation, administration and maintenance of the Project, including travel, rent of premises, office supplies, books, communication costs, reasonable bank charges, printing and publications (electronic and paper), translations, notary services, consumables and other expenditure items agreed by the Bank throughout the life of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (i) goods, works and services (other than consultants' services) costing less than \$500,000 equivalent per contract; (ii) services of individual consultants costing less than \$200,000 equivalent per contract; (iii) services of consulting firms under contracts costing less than \$200,000 equivalent per contract; (iv) training, study tours and Operating Costs; and (v) Subventions for Modernization of Local Social Welfare Offices, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in the National Bank of Ukraine or other banking institutions on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount not exceeding \$9,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. 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 in the aggregate do not exceed the Authorized Allocation. 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.
 - (b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the three-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in achieving significant improvement of the effectiveness of Ukraine's social assistance system by better targeting of the cash benefits and the reduction of burden on beneficiaries.

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: Administrative Modernization

1. Development of Capacity of Local Social Welfare Offices

Improvement of the capacity of about seven hundred fifty-four (754) Local Social Welfare Offices to enable them to deliver quality services to clients, through the implementation of organizational and operational reforms aimed at establishing an unified, function-based and client-oriented structure with rationalized and integrated front- and back-office operational functions, and encompassing: (i) a "single window" client interface based on the Single Application Form; (ii) uniform eligibility and benefit determination with a closely integrated social inspector function; (iii) unified benefit accounting; (iv) community outreach and public information; (v) program monitoring and evaluation functions; and (vi) management information reporting and analytic capacities, and the design of new business processes and, on the basis thereon, manuals of procedures, forms, work-flow, work-load estimates, and application software designs, and the staffing models, job descriptions, and training program designs, requirements for premise layouts, office equipment, furnishings, and information and communications technologies (ICT), through the provision, to such ends, of standard software and hardware to the Local Social Welfare Offices and the financing of Subvention for Modernization of Local Social Welfare Offices .

2. Development of Capacity of Regional Social Welfare Offices

Provision of hardware and software to the regional social welfare offices for performing social assistance program and monitoring. Increasing the level of public awareness at regional and local levels of the system of social assistance as well as informing different segments of population of their rights for social assistance and the ways how to receive it, and encompassing, *inter alia*, publication of analytical, informational and educational articles in the regional press, production of information materials for dissemination to target population groups, holding of press-conferences and round-tables on social assistance administration reform, and monitoring of the regional media.

Part B: Social Protection Policy Development, Monitoring, Evaluation and Public Information

Strengthening of the MOLSP's capacity: (i) to develop social assistance policies with the systematic approach to monitoring program outcomes and policy impacts on a regular basis; and (ii) to design and implement a comprehensive information and education campaign on social assistance policies and programs, which comprises:

1. Social Assistance Policy Analysis, Monitoring and Evaluation

Strengthening of the MOLSP's capacity to develop social protection policies with a systematic approach, to evaluate their effectiveness and efficiency contributing to the long-term sustainability of the system, and to monitor policy impacts on regular basis, including the provision of assistance, training, seminars, workshops, study tours, office equipment, standard software packages and hardware as required for: (i) the development and implementation of a business plan for the MOLSP's Department of Social Strategy, comprising the clarification of its functional responsibilities and the establishment of appropriate linkages between the Department and other related departments, the production of an annual Social Policy report for the Borrower and the public, and the outlining of the structure of a monitoring and evaluation system; (ii) the construction of a social protection database; (iii) data modeling, applied empirical methodology for handling and interpreting data, critical analysis of organizational and system operation; (iv) the development of the library and a program of outsourced policy studies.

2. Poverty Monitoring and Analysis

Strengthening capacity of the MOLSP and the SSCU in poverty monitoring and analysis, in particular, through implementation of a set of activities on improving the reliability of key poverty indicators at national and regional levels, as well as assessment of performance efficiency of social protection programs through modular surveys.

3. Public Information and Communication

Improvement of the communication of information regarding social assistance policies and services, through the development and implementation of a public information campaign and the provision of assistance, television and radio time aimed at increasing the level of public awareness of the system of social assistance in the Borrower's territory and key steps of its reform. and encompassing, *inter alia*, publication of analytical, informational and educational articles in the national press, production of information materials, the holding of press conferences and round tables on social assistance administration reform, the carrying out of public opinion polls of target audiences and population at large.

Part C: Institutional Development

Strengthening of the MOLSP capacity as required to enable it to adequately perform its responsibilities under the Project, specially the coordination of the implementation arrangements with the regions, the monitoring of the quality of implementation of the new standard office model and the fiduciary aspects of the Project, and including the provision of assistance, training, equipment to support the MOLSP staff capacity development, its computerized accounting system, and Project auditing.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in dollars)*</u>
May 15, 2011	2,425,000
November 15, 2011	2,475,000
May 15, 2012	2,525,000
November 15, 2012	2,575,000
May 15, 2013	2,630,000
November 15, 2013	2,685,000
May 15, 2014	2,740,000
November 15, 2014	2,795,000
May 15, 2015	2,855,000
November 15, 2015	2,915,000
May 15, 2016	2,975,000
November 15, 2016	3,035,000
May 15, 2017	3,100,000
November 15, 2017	3,165,000
May 15, 2018	3,230,000
November 15, 2018	3,295,000
May 15, 2019	3,365,000
November 15, 2019	3,435,000
May 15, 2020	3,505,000
November 15, 2020	3,575,000
May 15, 2021	3,650,000
November 15, 2021	3,725,000
May 15, 2022	3,805,000
November 15, 2022	3,880,000
May 15, 2023	3,965,000
November 15, 2023	4,045,000
May 15, 2024	4,130,000
November 15, 2024	4,215,000
May 15, 2025	4,300,000
November 15, 2025	4,385,000

* 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 and Consultants' Services

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods and services (other than consultants' services) estimated to cost less than \$500,000 equivalent per contract and works estimated to cost less than \$5,000,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) Eligibility

Bidding shall not be restricted to domestic firms. Foreign firms shall not be excluded from the national competitive bidding process irrespective of the contract value.

(b) Procedures

- (i) “Open tender procedures” shall be followed in all cases.
- (ii) Invitations to bid shall be advertised in the Borrower’s Bulletin of State Procurement “*Visnyk Derzhavnykh Zakupivel*” and in at least one (1) widely circulated national or regional as the case may be daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.
- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.

(c) Pre-qualification

- (i) Prequalification, where used, shall be based on a “pass/fail” system.
- (ii) Minimum experience, technical, and financial requirements shall be explicitly stated in the pre-qualification documents.

(d) Participation by Government-owned Enterprises

- (i) Government-owned enterprises in the Borrower’s territory shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Government.
- (ii) Government-owned enterprises will be subject to the same bid and performance security requirements as other bidders.

(e) Bidding Documents

- (i) Procuring entities shall use the appropriate sample bidding documents acceptable to the Bank , including pre-qualification documents, for the procurement of goods or technical services (other than consultants' services).
- (ii) Bidding documents shall be made available to all those companies that have paid the required fee.

(f) Bid Opening and Bid Evaluation

- (i) Bids shall be opened in public, immediately after the deadline for submission of bids.
- (ii) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.
- (iii) No domestic preference shall be allowed in evaluating bids.
- (iv) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid and no negotiations shall be carried out prior to contract award.

(g) Rejection of Bids

- (i) No bid shall be rejected purely on the basis that the bid price is higher than the estimated budget for that procurement.
- (ii) All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.

(h) Securities

Bid security shall not exceed two percent (2%) of the estimated cost of the contract. Performance security shall not exceed ten percent (10%) of the contract price. No advance payments shall be made to contractors without a suitable advance payment security. The format of all such securities shall be included into the bidding documents and shall be acceptable to the Bank.

2. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant

Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (i) each contract for goods, works and services (other than consultants' services) to be procured on the basis of International Competitive Bidding or Direct Contracting; (ii) the first two (2) contracts for goods and services (other than consultants' services) to be procured on the basis of National Competitive Bidding or Shopping, regardless of the cost thereof; (iii) each contract for

consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more; (iv) each contract for consultants' services provided by a firm to be procured on the basis of Single Source Selection; and (v) the first two (2) for consultants' services to be procured on the basis of Quality- and Cost-based Selection, Quality-based Selection, Selection Under a Fixed Budget, Least-cost Selection or Selection Based on Consultants' Qualifications, regardless of the cost thereof. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for the first two (2) contracts for the employment of individual consultants, regardless of the cost thereof, shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

Section A: Organizational Structure

1. MOLSP

(a) In furtherance of its implementation responsibilities under the Project, a Deputy Minister of MOLSP, acting as Manager, shall be assigned overall responsibility of the Project, who for such purposes shall provide the strategic link between the implementation of social assistance reform and effective delivery of the Project. The Borrower shall ensure that the required assistance is provided at all times to the MOLSP throughout Project implementation to enable it to adequately carry out the fiduciary functions under the Project, including the availability of a financial management specialist and a procurement advisor.

(b) The MOLSP shall be in responsible for Project implementation and coordination and management of Project funds. To that end, the Borrower shall take all action required to ensure that the MOLSP is provided at all times with the required financial resources and assistance for Project management, procurement, financial management, and accounting. In particular, the MOLSP shall be responsible for: (i) coordination of the procurement, disbursement and reporting functions on day-to-day basis; (ii) liaising with the Bank, SSCU and with other agencies involved in the Project; (iii) managing, monitoring and reporting functions for under the Project; (iv) monitoring Project expenditures and costs, management of the procurement process, including preparing and updating the procurement plan, processing of procurement packages and coordination of the bid evaluations process, placing and managing contracts, preparing Applications for Withdrawal from Loan account and tracking disbursements and internal control of the Loan and Borrower's funds; (v) maintaining Project records and accounts; (vi) updating the Project Operations Manual; (vii) preparing and distributing the consolidated progress reports referred to in Section B.4 of this Schedule to the Bank and other relevant agencies of the Borrower, reflecting the status of implementation progress and current costs of the Project and estimated costs of Project completion; (viii) ensuring timely preparation and submission to the Bank and the relevant agencies of the Borrower of annual audit reports of Project expenditures, and (ix) preparation of the Implementation Completion Report.

2. Local and Regional Social Welfare Offices

Local and regional social welfare offices shall take part in the implementation of Part A of the Project with regard to modernization of the Local and Regional Social Welfare Office as described in the Schedule 2 of this Agreement in accordance with the Project Operations Manual and Cooperation Agreements.

Section B: Progress Monitoring and Reporting

1. Project Operations Manual

The Borrower, through the MOLSP, shall take all action required to ensure that the Operations Manual is applied and followed at all times in the implementation, monitoring and evaluation of the Project, and, except as the Bank shall otherwise agree, the Borrower shall ensure that the MOLSP does not assign, amend, abrogate or waive the Operations Manual or any provision thereof.

2. Cooperation Agreements

For the purposes of ensuring the successful implementation and monitoring of Part A of the Project, the Borrower, through the MOLSP, shall, not later than three (3) months after the Effectiveness Date, conclude with the Council of Ministers of the Autonomous Republic of Crimea, each *Oblast* state administration, Kyiv and Sevastopol city state administrations a Cooperation Agreement satisfactory to the Bank which shall set forth the conditions and modalities for: (i) transferring standard software, hardware, furniture and other goods, and provision of training on social issues to the *regions*; (ii) implementing the Subvention for Modernization of the Local Social Welfare Offices; and (iii) covering the reasonable expenditures incurred or to be incurred by Local Social Welfare Offices of rayon state administrations for renovation; by regional social welfare offices for installation of equipment, software and local networks, training of personnel, public communication campaigns, coordination and monitoring, and operating costs.

3. Study Tours and Training

For the purposes of the study tours and the training for social assistance administration and monitoring and evaluation of social assistance under the Project, the Borrower, through the MOLSP, shall:

(a) furnish to the Bank for its approval every six (6) months, the content of each such study tours and training, including an explanation on how such study tours and training is consistent and conducive to the objectives of the Project and whether it offers the best price/quality ratio, as well as the schedule for its implementation;

(b) select the participants and trainees in accordance with a transparent process and criteria satisfactory to the Bank;

(c) not later than December 1 of each year, exchange views with the Bank on the study tours and training to be carried out during the following calendar year; and

(d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each study tours and training and the benefits to be derived therefrom.

4. Semi-annual Progress Reports

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the MOLSP, commencing on June 30, 2006 and thereafter, not later June 30 and December 31 in each calendar year and until Project completion, shall prepare and furnish to the Bank a consolidated semiannual progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the Monitoring and Evaluation Indicators, the progress achieved in the implementation of the Project during the preceding semester.

5. Mid-Term Review

The Borrower, through the MOLSP, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators, 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 April 30, 2007 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 May 31, 2007 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.