

CONFORMED COPY

LOAN NUMBER 3806 RU

Loan Agreement

(Environmental Management Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 6, 1995

LOAN NUMBER 3806 RU

LOAN AGREEMENT

AGREEMENT, dated February 6, 1995, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) The Borrower intends to continue its discussions with the Swiss Ministry of Foreign Economic Relations regarding a grant to the Borrower in the amount of 10 million Swiss Francs to assist the Borrower in the fulfillment of the objectives of the Borrower's Environmental Framework Program; and

(C) The Borrower intends to establish the National Pollution Abatement Facility (the NPAF, as defined in this Agreement), through a resolution of the Borrower, in accordance with this Agreement, and appoint the NPAF to carry out Part B of the Project with the Borrower's assistance, as provided in this Agreement;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Advance Agreement" means any agreement between the Borrower and a proposed Sub-borrower, entered into pursuant to Section 3.3(d) of this Agreement, as the same may be amended from time to time, concerning an Investment Project Preparation Advance;

(b) "CPPI" means the Borrower's Center for Project Preparation and Implementation, a non-commercial organization founded by the MEPNR pursuant to MEPNR Order No. 247, dated December 2, 1993, and duly registered on December 30, 1993, by the Division on Registration of Noncommercial Organizations, Department of Social and Political Relations, Municipal Government of Moscow;

(c) "CPPI Statutes" means the statutes, decision, charter, or other founding instruments of the CPPI, including any legal and regulatory enactments upon which such instruments are based, in existence as of the day and year of this Agreement;

(d) "CPPI Supervisory Board" means the supervisory board of the CPPI consisting of representatives of the Borrower's ministries and agencies, and chairpersons of the supervisory committees of Project subcomponents, and responsible for overall coordination and monitoring of the Project;

(e) "Investment Project" means a high priority resource recovery/pollution abatement project selected in accordance with the procedures and eligibility criteria set forth in Sections A and B of Schedule 7 to this Agreement and proposed to be carried out by a Sub-borrower utilizing the proceeds of the NPAF Sub-loan;

(f) "Investment Project Preparation Advance" means a foreign currency advance made or proposed to be made by the Borrower, out of the proceeds of the Loan, pursuant to Section 3.03(c) and (d) of this Agreement, to a proposed Sub-borrower for the preparation of technical, environmental, financial, and legal information concerning a proposed Investment Project;

(g) "MEPNR" means the Borrower's Ministry of Environmental Protection and Natural Resources;

(h) "MOF" means the Borrower's Ministry of Finance;

(i) "NPAF" means the National Pollution Abatement Facility to be established by the Borrower pursuant to Section 3.03 (a) of this Agreement;

(j) "NPAF Account" means a separate bank account established and maintained by the Borrower on terms and conditions set forth in Section 4.02 of this Agreement;

(k) "NPAF Sub-loan" means a foreign currency sub-loan made or proposed to be made by the Borrower, pursuant to a Subsidiary Loan Agreement, out of the proceeds of the Loan to a Sub-borrower for an Investment Project;

(l) "NPAF Supervisory Board" means the supervisory board responsible for consideration and approval of Investment Projects, established pursuant to the Resolution and consisting of representatives of the relevant ministries and agencies of the Borrower;

(m) "Operating Instructions" means instructions containing the operating procedures and policies of the NPAF, adopted pursuant to Section 3.03 (h) of this Agreement;

(n) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters, dated January 14, 1993, and March 31, 1993, between the Bank and the Borrower;

(o) "Resolution" means the resolution or resolutions, and all attachments thereto, adopted by the Borrower pursuant to Section 3.03 (a) of this Agreement, as the same may be amended from time to time in agreement with the Bank;

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

(q) "Sub-borrower" means an enterprise or entity selected in accordance with the procedures set forth in Sections A and B of Schedule 7 to this Agreement to carry out an Investment Project; and

(r) "Subsidiary Loan Agreement" means any agreement between the Borrower and a Sub-borrower, entered into pursuant to Section 3.03 (f) of this Agreement, as the same may be amended from time to time, concerning the financing of an Investment Project by the Borrower, and such term includes all schedules to such Subsidiary Loan Agreement.

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, various currencies that shall have an aggregate value equivalent to the amount of one hundred ten million dollars (\$110,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Sub-borrower under a NPAF Sub-loan to meet the reasonable cost of goods and services required for the

Investment Project in respect of which the withdrawal from the Loan Account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required under Parts A, B(1) and C of the Project and to be financed out of the proceeds of the Loan.

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

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

Section 2.03. The Closing Date shall be June 30, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c)

(iii) of this Section shall be amended to read as follows:

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

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental and commercial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall, except as the Borrower and the Bank shall otherwise agree, carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.03. Without limitation or restriction upon any of its other obligations under the Loan Agreement and except as the Borrower and the Bank shall otherwise agree, the Borrower shall, for the purpose of carrying out Part B of the Project:

(a) adopt a resolution (the Resolution) satisfactory to the Bank, establishing the NPAF and authorizing the carrying out of Part B of the Project in accordance with Schedules 5, 7 and 8 to this Agreement, and including, without limitation, the terms and conditions governing:

- (i) the use by the NPAF of Loan proceeds and goods and services financed by the Loan;
- (ii) the rights and responsibilities of the MOF, MEPNR, NPAF Supervisory Board, CPPI and other appropriate parties of the Borrower with respect to the NPAF;
- (iii) the NPAF Account;
- (iv) procedures, eligibility criteria and terms and

conditions related to the Investment Projects;
and

(v) maintenance and audit of records and accounts of the NPAF, and disclosure of information related to the NPAF, in accordance with Article IV of this Agreement;

(b) adopt all necessary internal legal and regulatory decisions to enable NPAF Sub-loans and Investment Project Preparation Advances to be made out of the proceeds of the Loan to Sub-borrowers;

(c) ensure that, unless the Bank shall otherwise agree, Investment Project Preparation Advances will be made in accordance with the procedures and eligibility criteria set forth in Sections A and B of Schedule 8 to this Agreement;

(d) ensure that each Investment Project Preparation Advance is made pursuant to an advance agreement (the Advance Agreement) entered into between the Borrower and the proposed Sub-borrower, under terms and conditions which shall have been approved by the Bank and which shall include, without limitation, the terms and conditions set forth in Section C of Schedule 8 to this Agreement;

(e) ensure that, unless the Bank shall otherwise agree, Investment Projects are selected and approved in accordance with the procedures and eligibility criteria set forth in Sections A and B of Schedule 7 to this Agreement;

(f) ensure that each NPAF Sub-loan is made pursuant to a subsidiary loan agreement (the Subsidiary Loan Agreement) entered into between the Borrower and the Sub-borrower, under terms and conditions which shall have been approved by the Bank, which shall include, without limitation, the terms and conditions set forth in Section C of Schedule 7 to this Agreement;

(g) cause each Sub-borrower to perform in accordance with the provisions of the respective Subsidiary Loan Agreement; and

(h) ensure that the NPAF operates pursuant to operating instructions (the Operating Instructions), satisfactory to the Bank, which shall contain a model Subsidiary Loan Agreement with terms and conditions set forth in Part C of Schedule 7 to this Agreement and a model Advance Agreement with terms and conditions set forth in Part C of Schedule 8 to this Agreement, and the operating procedures of the NPAF, including such matters as: (i) project eligibility criteria; (ii) project approval and appraisal criteria, including the Bank's right of prior review approval; (iii) staff and consultant responsibilities; (iv) procurement procedures; (v) auditing and reporting requirements; (vi) general terms and conditions of NPAF Sub-loans; and (vii) environmental guidelines.

Section 3.04. In order to facilitate the efficient carrying out of the Project, the Borrower shall ensure the operation of the CPPI with functions, staffing, including consultants, and other resources satisfactory to the Bank.

Section 3.05. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services to be financed out of the proceeds of the Loan and required for: (i) Parts A, B(1) and C of the Project shall be governed by the provisions of Schedule 4 to this Agreement; and (ii) Part B(2) of the Project shall be governed by the provisions of Schedule 9 to this Agreement.

ARTICLE IV

Financial and Other Covenants

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

(b) The Borrower shall and shall cause relevant ministries and agencies of the Borrower responsible for carrying out the Project or any part thereof to:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited in accordance with appropriate auditing principles consistently applied by independent auditors satisfactory to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall 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 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (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) Except as the Bank shall otherwise agree, the Borrower shall, in respect of any repayments of principal and advances, payment of commitment fees, interest and other payments to be made by the Sub-borrowers under their respective Subsidiary Loan Agreements and Advance Agreements, if applicable:

- (i) open, by the date on which the Borrower shall receive the first such payment, and thereafter maintain, in a bank satisfactory to the Bank, a

NPAF account (the NPAF Account), on terms and conditions, including auditing conditions, satisfactory to the Bank; and

- (ii) promptly upon receipt of such repayments and payments, credit the same to the NPAF Account.
- (b) Each March 1 and September 1, the Borrower shall:
- (i) withdraw from the NPAF Account an amount equivalent to the amount of interest and commitment charge due from the Borrower to the Bank under Article II of this Agreement with respect to NPAF Sub-Loans and, if no such amounts are available in the NPAF Account, the amounts due herein shall accrue for the benefit of the Borrower and be withdrawn out of the NPAF Account at such time as sufficient funds are available in the NPAF Account;
 - (ii) utilize the amounts, if any, remaining in the NPAF Account following withdrawals under Section 4.02 (b) (i) of this Agreement, excluding the amounts equivalent to the repayment of principal under the NPAF Sub-loans and Investment Project Preparation Advances, for the operating expenses of the NPAF expected to be incurred during the next six months;
 - (iii) utilize the amounts, if any, remaining in the NPAF Account following withdrawals under Section 4.02 (b) (i) and Section 4.02 (b) (ii) of this Agreement, excluding the amounts equivalent to the repayment of principal under the NPAF Sub-loans and Investment Project Preparation Advances, as follows: (A) thirty percent (30%) shall be used by the Borrower for payments due from the Borrower to the Bank under this Agreement; and (B) seventy percent (70%) shall be available to the NPAF for loans to Russian sub-borrowers for high priority recovery/pollution abatement projects; and
 - (iv) utilize the amounts, if any, remaining in the NPAF Account following withdrawals under Section 4.02 (b) (i), Section 4.02 (b) (ii) and Section 4.02 (b) (iii) of this Agreement for loans and advances to Russian sub-borrowers for high priority recovery/pollution abatement projects.

(c) The Borrower shall select a bank satisfactory to the Bank and enter into an arrangement, under terms and conditions satisfactory to the Bank, with such a bank to administer the Sub-loans and manage the NPAF Account.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that the Resolution or CPPI Statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the NPAF to implement Part B of the Project.

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

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

RUSSIAN FEDERATION

By /s/ Victor Danilov-Danilian
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) NPAF Sub-loans under Part B(2) of the Project	50,000,000	100%
(2) Investment Project Preparation Advance under Part B(2) of the Project	5,000,000	100%
(3) Goods for Parts A, B(1) and C of the Project	6,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(4) Consultants' services and training:		
(a) for Parts A and C of the Project	33,700,000	100%
(b) for Part B(1) of the Project	3,800,000	100%

Amount of the

Category	Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Incremental Recurrent Costs	2,000,000	100% of local expenditures incurred up to November 30, 1997, and 50% of local expenditures thereafter
(6) Refunding of Project Preparation Advance	460,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	8,340,000	
TOTAL	110,000,000 =====	

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; and

(c) the term "Incremental Recurrent Costs" means the incremental recurrent costs incurred for Project implementation, such as operating costs, vehicle and equipment maintenance and communications expenses.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for: (a) expenditures prior to the date of this Agreement; (b) any NPAF Sub-loan under Category (1) of this Schedule, unless: (i) the Operating Instructions have been adopted in a manner satisfactory to the Bank; (ii) the Borrower has entered into an arrangement with a bank pursuant to Section 4.02 (c) of this Agreement; and (iii) the Investment Project concerned has been approved in accordance with the procedures, eligibility criteria and on the terms and conditions set forth in Schedule 7 to this Agreement; or (c) any Investment Project Preparation Advance under Category (2) of this Schedule, unless: (i) the Operating Instructions have been adopted in a manner satisfactory to the Bank; (ii) the Borrower has entered into an arrangement with a bank pursuant to Section 4.02 (c) of this Agreement; and (iii) the Investment Project Preparation Advance concerned has been approved in accordance with the procedures, eligibility criteria and on the terms and conditions set forth in Schedule 8 to 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 goods, and consultants' services and training, and incremental recurrent costs not exceeding \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to:

(i) strengthen and streamline federal and regional institutional structures for environmental management; (ii) improve federal and regional environmental policy formulation and implementation; (iii) upgrade federal and regional environmental management systems; and (iv) assist in the financing of economically viable high priority resource recovery/pollution abatement projects in the Russian Federation.

The Project is part of the Borrower's Environmental Framework Program and 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: Technical Assistance

1. Policy and Regulatory Support

Strengthening of the Borrower's capacity to develop, implement and enforce environmental policies and regulations on federal and regional levels (with focus on Urals and Upper Volga regions) through the provision of consulting services, training and goods.

2. Environmental Epidemiology

Strengthening of federal and regional environmental epidemiology management system, with emphasis on the collection and analysis of environmental health data, identification of the most urgent problems and development of appropriate federal and regional policies, through the provision of consulting services, training and goods.

3. Water Quality and Water Resource Management

Development and implementation of an integrated planning and regulatory reform program on federal and regional levels (with focus on the Upper Volga River basin, the Urals region and the North Caucasus region), with emphasis on the improvement of drinking water supplies, development of a prioritized investment and action programs, and development of water management policy issues, through the provision of consulting services, training and goods.

4. Hazardous Waste Management

Development of a national industrial waste data management system and development and demonstration of a regional regulatory hazardous waste management system, through the provision of consulting services, training and goods.

Part B: NPAF

Strengthening of financial delivery mechanisms required to address priority environmental management investment through:

- (1) the establishment and operation of the NPAF; and
- (2) financing of Investment Projects and re-financing of similar high priority recovery/pollution abatement projects.

Part C: CPPI

Maintenance of a Center for Project Preparation and Implementation responsible for: (i) implementation of the Project, following the Bank's procurement, disbursement, accounting, auditing and reporting requirements; (ii) facilitation of training activities under the Project; (iii) facilitation of overall Project coordination; (iv) dissemination of information to third parties regarding the environmental projects of the Borrower; and (v) interaction with other

multilateral funding institutions and other funding agencies.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 1 and September 1 beginning March 1, 2000 through March 1, 2011	4,585,000
And on September 1, 2011	4,545,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35

More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

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

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Russian Federation may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount equivalent to \$2,330,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.
2. Items or groups of items for goods estimated to cost the equivalent of \$10,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from the Russian Federation eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 5

Implementation Program

A. Overall Coordination and Management of the Project

1. The MEPNR shall be responsible for implementation of the

Project. The overall coordination and monitoring of the Project shall be the responsibility of the CPPI Supervisory Board.

2. The CPPI shall be responsible for, inter alia, the following day-to-day activities related to Project implementation: procurement, accounting, disbursement, auditing, reporting, monitoring and evaluation of activities under all federal and regional components of the Project, and preparation, appraisal and supervision of Investment Projects. The CPPI shall be assisted by consultants providing procurement, financial management and information systems, and general project advice and services, project performance and progress evaluation, and sub-project investment services. The CPPI shall liaise with international donors, Borrower's ministries and agencies, other parties and sub-component implementing teams regarding Project activities. The CPPI shall engage consultants (individuals and firms) for the purpose of staffing the CPPI, NPAF and subcomponent implementation teams.

B. Part A of the Project: Technical Assistance

1. Policy and Regulatory Support

Policy and regulatory support subcomponent of the Project shall be implemented by the relevant federal and regional environmental policy teams, supervised by Governmental Commission on Environment and Use of Natural Resources and the inter-regional environmental councils of the Upper Volga and Urals regions, in cooperation with the MEPNR, relevant regional authorities and CPPI.

2. Environmental Epidemiology

Environmental epidemiology subcomponent of the Project shall be implemented by federal and two regional centers, supervised by federal and regional subcomponent inter-agency committees, in cooperation with the MEPNR, Ministry of Public Health, State Committee for Sanitary and Epidemiological Surveillance, relevant regional authorities and CPPI.

3. Water Quality and Water Resource Management

Water quality and water resource management subcomponent of the Project shall be implemented by federal and three regional teams, supervised by the relevant federal and regional management committees in the regions of the Upper Volga, the Urals and North Caucases, in cooperation with the relevant regional administrations, the MEPNR, Committee for Water Resources Management and CPPI.

4. Hazardous Waste Management

Hazardous waste management subcomponent of the Project shall be implemented by federal and regional teams, supervised by subcomponent management committees, in cooperation with the MEPNR, the Institute of Economic Problems of Nature Management, administrations and environmental protection committees of Yaroslavl and Vologda Oblast, the CPPI and relevant ministries and agencies.

C. Part B of the Project: National Pollution Abatement Facility

1. The CPPI, assisted by consultants, shall provide professional services related to the selection, design, appraisal and supervision of the Investment Projects, on the basis of procedures and eligibility criteria set forth in Sections A and B of Schedule 7 to this Agreement and the Operating Instructions.

2. The NPAF Supervisory Board shall review and approve Investment Projects proposed by the CPPI.

3. The MOF, as the sub-loan lender of record, shall take decisions related to the Investment Projects considered and approved by the NPAF Supervisory Board, and shall enter into appropriate Subsidiary Loan Agreements.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 \$2,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively

for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

On-Lending Procedures, Eligibility Criteria and Terms and Conditions of Investment Projects

A. Procedures

1. No expenditures for goods and services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless: (i) the Bank has reviewed and issued a no-objection with respect to the Investment Project before the Investment Project is approved by the NPAF Supervisory Board; and (ii) expenditures under the NPAF Sub-

loan for such an Investment Project shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 2 of Part A of this Schedule in respect of such NPAF Sub-loan.

2. In addition to the general procedures described in paragraph 1 of Part A of this Schedule, the following procedures shall be followed in connection with any proposed Investment Project:

(a) a Sub-borrower seeking a NPAF Sub-loan shall prepare and submit to the CPPI an application and summary of the proposed Investment Project;

(b) an initial review of the proposed Investment Project shall be undertaken by the NPAF consultants, who shall then prepare an initial review summary;

(c) the Bank shall review and comment upon the initial review summary for each proposed Investment Project;

(d) following the Bank review and comment, the director of the CPPI shall determine, taking into account the recommendations of the NPAF consultants, whether or not to further prepare and appraise the proposed Investment Project;

(e) if a decision is made to proceed with the preparation and appraisal of the proposed Investment Project, the NPAF consultants shall prepare a feasibility study for the proposed Investment Project in accordance with the Operating Instructions and in the form satisfactory to the Bank. The feasibility study shall include: (i) a description of the Sub-borrower, including its legal status and ownership; and (ii) a summary and detailed description of the Investment Project, including financing plan, cost and benefit analysis, environmental impact assessment and other pertinent environmental information, financial projections, cash flow forecast, foreign currency justification, proposed procurement arrangements, and status of authorizations and licenses;

(f) prior to submitting the proposed Investment Project to the NPAF Supervisory Board, the proposed Investment Project shall be submitted to the Bank for review and a no-objection. When presenting the proposed Investment Project to the Bank, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Sub-borrower to which the NPAF Sub-loan is proposed to be made and the approved feasibility study for such Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the draft Subsidiary Loan Agreement containing the proposed terms and conditions of the NPAF Sub-loan and the schedule of amortization of the NPAF Sub-loan; and (iii) such other information as the Bank shall reasonably request;

(g) following the Bank's review and no-objection, and the NPAF Supervisory Board appraisal and approval, of the proposed Investment Project, the Borrower, based on the determination of the NPAF Supervisory Board, shall make the final decision whether to approve the proposed Investment Project; and

(h) following the approval of the Investment Project by the Borrower, the Borrower, Sub-borrower and any other relevant party shall execute a Subsidiary Loan Agreement giving the Borrower legal rights adequate to protect the interests of the Bank and the Borrower and containing, inter alia, the terms and conditions set forth in Part C of this Schedule 7.

B. Eligibility Criteria

NPAF Sub-loans shall be made only to enterprises selected and evaluated in accordance with criteria satisfactory to the

Bank. The evaluation criteria shall include the following:

(a) technical-economic criteria demonstrating the feasibility and cost efficiency of the proposed Investment Project;

(b) environmental criteria incorporating environmental assessment and audit considerations and demonstrating significant reduction of harmful environmental impacts from existing operations; and

(c) financial criteria demonstrating that the proposed Investment Project is a commercially viable project.

C. Terms and Conditions

1. Each Subsidiary Loan Agreement shall require the Sub-borrower to, inter alia:

(a) carry out and operate the Investment Project with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound technical, financial, environmental, commercial and managerial standards;

(b) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions, including separate records and accounts adequate to reflect all resources and expenditures related to the Investment Project;

(c) have its records, accounts and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory to the Borrower, and furnish to the Borrower not later than six months after the end of each such year certified copies of its financial statements for such year so audited and the report of such audit by the auditors of such scope and such detail as the NPAF shall have reasonably requested (which report shall include an analysis of the Sub-borrower's performance, as measured by the performance indicators satisfactory to the NPAF and the Bank, which shall include, inter alia, commercial, technical, operational, environmental, administrative and financial indicators);

(d) procure the goods and services to be financed by the NPAF Sub-loans in accordance with the provisions of Schedule 9 to this Agreement and to use such goods and services exclusively in the carrying out of the Investment Project;

(e) allow the Borrower, by itself or jointly with representatives of the Bank, if the Bank shall so request, to inspect such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(f) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including insurance covering hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the NPAF Sub-loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

(g) assume the foreign exchange risk between the Dollar and the ruble;

(h) contribute from amounts generated internally funds for the Investment Project equal to not less than twenty percent of the total cost of the Investment Project and pay an up-front project appraisal fee equal to one percent of the proposed NPAF Sub-loan amount;

(i) prepare and promptly furnish to the Borrower, for forwarding to the Bank, if so requested by the Bank, all such information as the Borrower or the Bank shall reasonably request relating to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Investment Project;

(j) give the Borrower the right to suspend or terminate the right of the Sub-borrower to the use of the proceeds of the NPAF Sub-loan upon failure by such Sub-borrower to perform its obligations under the Subsidiary Loan Agreement; and

(k) at the conclusion of the Investment Project, submit to the Borrower, in a manner and by date satisfactory to the Borrower and the Bank, an Investment Project completion report.

2. Each NPAF Sub-loan shall: (i) be denominated and be repayable (principle and interest) in Dollars; (ii) carry an interest rate satisfactory to the Bank; (iii) require the payment of a loan supervision fee equal to 0.25 percent for the first five years and 0.125 percent for all subsequent years; (iv) be issued for a maximum maturity period of eight years, or such longer period as may be satisfactory to the Bank, with up to three years grace period for the repayment of the principal of the NPAF Sub-loan; (v) be equal to no less than \$350,000 and no more than \$7,000,000, unless otherwise agreed upon by the Bank; and (vi) contribute no more than seventy percent of the total cost of the Investment Project, unless otherwise agreed upon by the Bank.

SCHEDULE 8

On-Lending Procedures, Eligibility Criteria and Terms and Conditions of Investment Project Preparation Advances

A. Procedures

1. The following procedures shall be followed in connection with any proposed Investment Project Preparation Advance:

(a) a Sub-borrower seeking an Investment Project Preparation Advance for a NPAF Sub-loan shall prepare and submit to the NPAF, together with an application and summary of the proposed Investment Project, an application for the Investment Project Preparation Advance, in form and with information (including technical, environmental, financial, and legal information) satisfactory to the NPAF;

(b) if the NPAF determines that the proposal for the Investment Project Preparation Advance meets the technical, environmental, financial, and legal criteria, the proposal shall be sent to the Bank, together with the initial review summary for the proposed Investment Project;

(c) following the Bank's review and no-objection, and the NPAF Supervisory Board or its appointee approval, the Borrower shall, based on the determination of the NPAF Supervisory Board, make the final decision whether or not to approve the Investment Project Preparation Advance; and

(d) following the approval of the Investment Project Preparation Advance by the Borrower, the Borrower, Sub-borrower and any other relevant party shall execute an Advance Agreement giving the Borrower legal rights adequate to protect the interests of the Bank and the Borrower and containing, inter alia, the terms and conditions set forth in Part C of this Schedule 8.

B. Eligibility Criteria

Investment Project Preparation Advances shall be made only to enterprises selected and evaluated in accordance with criteria satisfactory to the Bank. The evaluation criteria shall include technical, environmental, financial and legal criteria.

C. Terms and Conditions

1. Each Advance Agreement shall require the Sub-borrower, unless otherwise agreed upon by the Borrower and the Bank, to, inter alia:

(a) carry out preparation work and feasibility studies related to the proposed Investment Project with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound technical, financial, environmental, commercial and managerial standards;

(b) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions, including separate records and accounts adequate to reflect all resources and expenditures related to the Investment Project Preparation Advance;

(c) procure the goods and services to be financed by the Investment Project Preparation Advance in accordance with the provisions of Schedule 9 to this Agreement and to use such goods and services exclusively in the carrying out of preparation work and feasibility studies related to the proposed the Investment Project;

(d) allow the Borrower, by itself or jointly with representatives of the Bank, if the Bank shall so request, to inspect any relevant records and documents;

(e) assume the foreign exchange risk between the Dollar and the ruble;

(f) prepare and promptly furnish to the Borrower, for forwarding to the Bank, if so requested by the Bank, all such information as the Borrower or the Bank shall reasonably request relating to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Investment Project Preparation Advance;

(g) give the Borrower the right to suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Investment Project Preparation Advance upon failure by such Sub-borrower to perform its obligations under the Advance Agreement; and

(h) at the conclusion of preparation work and feasibility studies related to the proposed Investment Project, submit to the Borrower, in a manner and by date satisfactory to the Borrower and the Bank, an Investment Project preparation report.

2. Each Investment Project Preparation Advance shall, unless otherwise agreed upon by the Borrower and the Bank: (i) be denominated and be repayable (principle and interest) in Dollars; (ii) carry an interest rate satisfactory to the Bank; (iii) be equal to no more than \$300,000; and (vi) contribute no more than eighty percent of the total cost of preparation work and feasibility studies related to the proposed the Investment Project.

SCHEDULE 9

Procurement and Consultants' Services Under NPAF Sub-Loans

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Parts B and C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

2. For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors satisfactory to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

3. In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Russian Federation may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost the equivalent of \$2,000,000 or less per contract, up to an aggregate amount equivalent to \$33,190,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

2. Items or groups of items for goods estimated to cost the equivalent of \$10,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from the Russian Federation eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to the Loan Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.
Section II. Employment of Consultants

1. In order to assist the NPAF in the carrying out of Part B of the Project, the NPAF shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the NPAF shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

