

CONFORMED COPY

LOAN NUMBER 3546 RU

Loan Agreement

(Privatization Implementation Assistance Project)

between

THE RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 15, 1993

LOAN NUMBER 3546 RU

LOAN AGREEMENT

AGREEMENT, dated May 15, 1993, between THE RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower has undertaken a set of interrelated measures intended to facilitate the transition to a market-oriented economy, including a program for the privatization of state-owned and municipal enterprises (the State Privatization Program, as defined in this Agreement);

(B) in order to facilitate access to certain professional skills, international experience and technical expertise in the areas of privatization policy and business development, the Borrower entered into a program of technical cooperation with the Bank and the European Bank for Reconstruction and Development (EBRD) (the TC Program);

(C) in furtherance of the aims of the State Privatization Program and the TC Program, the Borrower wishes to continue and, in particular, to expand access to certain professional skills,

international experience and technical expertise in the areas defined by the TC Program and in other areas, along with related equipment and other implementation resources, by means of the project described in Schedule 2 to this Agreement (the Project);

(D) the Borrower, having satisfied itself as to the feasibility and priority of the Project, intends to obtain financing for the Project partly from external sources, and has thereto requested the Bank to assist in providing such financing;

(E) the Borrower likewise intends to obtain financing for the Project from the EBRD, on the terms and conditions set forth in an agreement (the EBRD Loan Agreement) to be entered into between the Borrower and the EBRD;

(F) the Borrower has confirmed the establishment of the Privatization Center of the Russian Federation (the Privatization Center), pursuant to Decree No. 716 of the President of the Borrower of November 23, 1992 and the Founders' Agreement dated October 20, 1992, and intends to appoint the Privatization Center as its executing agency to carry out Parts A and B of the Project with the Borrower's assistance in accordance with subsidiary project management arrangements to be concluded by the Borrower with the Privatization Center, as provided in this Agreement; and

(G) Part C of the Project will be carried out by the Borrower through its Working Center for Economic Reform (WCER); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and the Privatization Center;

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) "Project Agreement" means the agreement between the Bank and the Privatization Center of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated July 31, 1992 and August 20, 1992 between the Borrower and the Bank;

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

(d) "Privatization Center" means the Privatization Center of the Russian Federation, a state foundation established by the Borrower pursuant to Decree No. 716 of the President of the Borrower of November 23, 1992 and the Founders' Agreement dated October 20, 1992;

(e) "State Privatization Program" means the State Program of Privatization of State and Municipal Enterprises of the Borrower for 1992, adopted pursuant to Resolution No. 2980-1 of the Supreme Soviet of the Borrower of June 11, 1992, and includes any subsequent state privatization programs which shall be adopted by the Borrower, during the execution of the Project, for any other years with which the Project is concerned, and any implementing legislation and regulations issued by agencies of the Borrower which shall be necessary for the implementation of such programs;

(f) "Subsidiary Project Management Arrangements" means the agreements, decisions or other written arrangements governing the relationship between the Borrower and the Privatization Center, which shall have been concluded pursuant to Section 3.03 of this Agreement, including any amendments to such arrangements as may be made from time to time;

(g) "the GKI-FPF Operational Coordination Agreement" means the agreement between GKI and FPF dated October 28, 1992, defining organizational measures for the coordination of operational work and division of responsibilities for implementation of the State Privatization Program, as the same may be amended or superseded from time to time by other operational coordination agreements between FPF and GKI, in compliance with Article 15(6) of the Borrower's Law on the Privatization of State and Municipal Enterprises of July 3, 1991, as amended, under which such agreements are required to be entered into annually by FPF with GKI and MKIs;

(h) "Statutes" means the founding statutes, act, decision, charter, articles of incorporation and bylaws, memorandum and articles of association, or other similar instrument of the Privatization Center, including any agreement among the founders or shareholders thereof and any legislation upon which such Statutes are based, as the same may have been amended to the date of this Agreement;

(i) "GKI" means the State Committee of the Borrower for the Management of State Property, and includes any territorial branches of such state committee as may be established under Article 4(1) of the Borrower's Law on the Privatization of State and Municipal Enterprises of July 3, 1991;

(j) "MKIs" means state committees, other than GKI, established for the management of state property, including such state committees as may be established pursuant to Article 5 (1) of the Borrower's Law on the Privatization of State and Municipal Enterprises of July 3, 1991 by local soviets of peoples deputies of the political and administrative subdivisions of the Borrower for the management of state and municipal property under the jurisdiction of such political and administrative subdivisions; and

(k) "FPF" means the Federal Property Fund of the Borrower, established pursuant to Decree No. 1533-7 of the Supreme Soviet of the Borrower of July 3, 1991.

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 ninety million dollars (\$90,000,000), 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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower 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, 1996, 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 February 15 and August 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. 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 the assistance of the Privatization Center with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for this purpose.

Section 3.02. Without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall:

(a) cause the Privatization Center to perform in accordance with the Project Agreement, the Subsidiary Project Management Arrangements and the Statutes, all the obligations and activities of the Privatization Center therein set forth which may affect the Project; and take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Privatization Center to perform such obligations; and not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under the Subsidiary Project Management Arrangements in such a manner as to protect the interests of the Borrower and the Bank, to comply with the provisions of this Agreement, and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Subsidiary Project Management Arrangements or any provision thereof.

Section 3.03. For purposes of implementing the Project, the Borrower shall enter into subsidiary project management arrangements, satisfactory to the Bank, with the Privatization Center, whereby the Privatization Center shall be appointed executing agent of the Borrower for carrying out such activities under the Project and obligations of the Borrower as shall have been specified therein and in respect of which the Borrower shall have made all necessary provision, including, inter alia:

(a) the carrying out by the Privatization Center of

Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate practices and in accordance with the GKI-FPF Operational Coordination Agreement and the applicable provisions of the Schedule to the Project Agreement;

- (b) the carrying out by the Privatization Center of the procurement and related accounting for the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan;
- (c) the utilization of funds by the Privatization Center, including the proceeds of the Loan, required for the support of the operations of the Privatization Center undertaken in accordance with subparagraphs (a) and (b) of this Section, and the manner of effecting compliance with the obligations of the Borrower under Section 4.01 of this Agreement in respect of the expenditures to be made with such funds; and
- (d) the establishment and continuous operation by the Privatization Center of all facilities necessary for the appropriate administration of Project activities and related management functions undertaken by the Privatization Center in accordance with subparagraphs (a), (b) and (c) of this Section.

Section 3.04. Without limitation upon the provisions of Section 3.03 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out, or cause to be carried out, the Project in accordance with the Implementation Programs set forth in Schedule 5 to this Agreement and the Schedule to the Project Agreement.

Section 3.05. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Part C of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.06. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A and B of the Project shall be carried out by the Privatization Center pursuant to Section 2.03 of the Project Agreement.

Section 3.07. After the earlier of June 30, 1994, or when fifty percent of the Loan amount, as described in Section 2.01 of this Agreement, has been disbursed, the Borrower and the Bank shall conduct a comprehensive review, using criteria satisfactory to the Bank, of the progress in implementing the Project.

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, with the appropriate assistance of the Privatization Center as shall have been set forth in the Subsidiary Project Management Arrangements:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six 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 or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) ensure access by the Bank's representatives to the appropriate facilities for purposes of examining 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.

ARTICLE V

Remedies of the Bank

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

(a) The Privatization Center shall have failed to perform any of its obligations under the Project Agreement or the Subsidiary Project Management Arrangements.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Privatization Center will be able to perform its obligations under the Project Agreement or the Subsidiary Project Management Arrangements.

(c) The Statutes of the Privatization Center or the GKI-FPF Operational Coordination Agreement or the State Privatization Program shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Privatization Center to perform any of its obligations under the

Project Agreement or the Subsidiary Project Management Arrangements.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Privatization Center or for the suspension of its operations.

(e) The Privatization Center shall have become unable to pay its debts as they mature, or any action or proceeding shall have been taken by the Privatization Center or by others acting under official claim of right or having a cause of action against the Privatization Center, whereby any of the assets of the Privatization Center shall or may be distributed among its creditors in accordance with legislation of the Borrower pertaining to instances of insolvency.

(f) The Privatization Center shall have taken any of the actions specified in Section 4.03 of the Project Agreement, so as to affect materially and adversely the operations or the financial condition of the Privatization Center or its ability to carry out the Project or perform any of its obligations under the Project Agreement or the Subsidiary Project Management Arrangements.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the EBRD Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(B) the EBRD Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or pre-maturing is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) any event specified in paragraphs (c), (d), (e), and (f) of Section 5.01 of this Agreement shall occur;

(c) the event specified in paragraph (g) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (g) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Project Management Arrangements have been duly concluded by the Borrower and the Privatization Center, respectively, by all necessary governmental and corporate action;

(b) the EBRD Loan Agreement has been executed and delivered, and all conditions precedent to the effectiveness of the EBRD Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(c) that the persons selected for the positions of chief executive officer, chief financial officer, chief procurement officer, chief operating officer, and manager for vouchers and capital markets of the Privatization Center have been appointed in accordance with the Implementation Program annexed as the Schedule to the Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by the Privatization Center, and is legally binding upon the Privatization Center in accordance with its terms; and

(b) that the Subsidiary Project Management Arrangements have been duly authorized or ratified by the Borrower and the Privatization Center and constitute valid and legally binding obligations of the Borrower and the Privatization Center, respectively, enforceable in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
103097 Moscow
Ilyinka Street 9
Russian Federation

Telex:

112008

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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

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.

THE RUSSIAN FEDERATION

By /s/ Anatoly Chubais
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ernest Stern
Managing Director

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) Computers, equip- ment and materials:		100% of foreign expenditures, 100% of local
(a) under Part B.1 expenditures of the Project	300,000	(ex-factory cost) and 70% of local expen- ditures for other items procured locally
(b) under Part B.6 of the Project	9,000,000	
(2) Consultants' services and training:		100%
(a) under Part A of the Project	3,000,000	
(b) under Part B.1 of the Project	900,000	
(c) under Part B.2 of the Project	10,500,000	
(d) under Part B.3 of the Project	3,500,000	
(e) under Part B.4 of the Project	29,000,000	
(f) under Part B.5 of the Project	9,000,000	
(g) under Part C of the Project	7,000,000	

(3) Media time and space	8,500,000	100%
(4) Incremental Operating Costs of the Privatization Center under Part B.1 of the Project:		
(a) Long-Term Experts not domiciled in Russia	1,200,000	100%
(b) Other Incremental Operating Costs		
(i) For 1993	1,500,000	75% of local expenditures
(ii) For 1994	1,900,000	60% of local expenditures
(iii) For 1995	1,200,000	40% of local expenditures
(5) Refunding Project Preparation Advance	1,500,000	Amounts due pursuant to Section 2.02 (b) of this Agreement
(6) Unallocated	2,000,000	
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TOTAL	90,000,000	

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; provided, however, that if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures";

(c) "Incremental Operating Costs" comprises salaries and benefits of staff payable within a range for each position acceptable to the Bank, utility charges at a rate not to exceed the rate in domestic prices payable by comparable organizations, locally-procured office equipment and supplies, costs payable in connection with maintenance of facilities, insurance, and other ordinary and necessary costs payable by the Privatization Center that would be payable by entities similarly situated on the territory of the Borrower and customarily regarded as a cost of doing business, including administrative costs such as travel allowances; and

(d) "Subproject" means any grant of resources or program of technical assistance arranged by the Privatization Center which involves the provision of goods, services, or other facilities financed out of the proceeds of the Loan to a Recipient for purposes of carrying out the Project.

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

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

(b) payments made for expenditures under Category (4) of this Schedule prior to the adoption by the Privatization Center of the annual operating budget described in Section 4.02 of the Project Agreement for 1993;

(c) payments made for rental of office space or for expenditures relating to the obtaining of any such office space by the Privatization Center under Category (4) of this Schedule;

(d) payments for any Subproject under Category (2) (e) of this Schedule until the information and documents required to be furnished to the Bank pursuant to Part III of the Schedule to the Project Agreement shall have been duly furnished:

- (1) with respect to Part B.4 (d) of the Project (financial-adviser-led transactions), for the first two Subprojects under such component;
- (2) with respect to Part B.4 (e) of the Project (investment-bank-led transactions), for each such Subproject;
- (3) with respect to Part B.4 (f) of the Project (sectoral-restructuring transactions), for each such Subproject; and
- (4) with respect to Part B.4 (g) of the Project, for the first two environmental reviews;

(e) payments made for expenditures under Category (1) (b) of this Schedule until the plan required to be furnished to the Bank pursuant to Part V of the Schedule to the Project Agreement shall have been duly furnished;

(f) payments under Category (2) (g) of this Schedule until an agreement or other arrangements satisfactory to the Bank shall have been made between WCER and the Privatization Center on the manner of carrying out by the Privatization Center of procurement, disbursement and related accounting functions for Part C of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to continue to assist the Borrower in formulation of sound policy measures for privatization of state-owned enterprises and in areas complementary thereto; (ii) to provide the implementation resources, in the form of professional skills, international experience, technical expertise, and equipment required to develop and carry out the State Privatization Program during its initial and most crucial phase; and (iii) to assist the Borrower in developing entrepreneurship by facilitating business entry and by providing pilot business advisory and infrastructure services.

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: Policy Studies and Advisory Support

Development of policy and implementation arrangements to ensure that aspects relating to anti-monopoly and pro-competition issues, enterprise finance, corporate governance, environmental policy and other sectoral issues are appropriately reflected in the privatization process.

Part B: Implementation of the State Privatization Program

1. Strengthening the capacity of the Privatization Center to

implement the State Privatization Program, including support for incremental staffing, facilities and operations and the provision of technical assistance and staff training to the Privatization Center.

2. The preparation and implementation of a plan for mass privatization under the State Privatization Program, including:

- (a) the preparation and maintenance of a data base of state and municipal enterprises subject to corporatization and privatization pursuant to such mass privatization, preparation of privatization plans and implementation of the closed subscription procedures relating to the issuance of shares to the workers' collectives;
- (b) the introduction, printing, distribution, circulation and cancellation of privatization vouchers under the State Privatization Program;
- (c) preparation and implementation of detailed guidelines and regulations regarding the establishment and operation of investment funds and development of an effective system regarding the exchange of privatization vouchers for shares of enterprises being privatized; and
- (d) the preparation of procedures for, and assistance in conducting auctions of enterprise shares in exchange for privatization vouchers.

3. Implementation of a large-scale public information campaign concerning the State Privatization Program in order to explain its components to the public.

4. Identification of specific enterprises suitable for privatization and the preparation for, and implementation of, privatization plans for such enterprises, including:

- (a) selection of large enterprises with identified prospects for successful privatization;
- (b) provision of legal support to assist in the development of legal solutions regarding transactional elements in the privatization process;
- (c) preparation and implementation of pilot programs for the sale of shares in exchange for vouchers in selected corporatized state enterprises, including evaluation of the impact of such sales on the performance of the enterprise concerned;
- (d) preparation for privatization of about 25 large enterprises, not involving investment banking services;
- (e) preparation for privatization of about 25 large enterprises, involving investment banking services;
- (f) preparation for privatization of about 8 large enterprises/sectors requiring restructuring; and
- (g) environmental assessments and environmental reviews of about 50 large enterprises in the process of privatization.

5. Assisting in the privatization of small- and medium-sized enterprises in approximately 12 regions including:

- (a) management and provision of advisory support for small- and medium-sized privatization;
- (b) management and provision of technical skills and services in connection with privatization of small- and medium-sized enterprises; and

- (c) implementation of small- and medium-size privatization, including auctions and other forms of privatization of these enterprises.

6. Acquisition, transportation, installation and ongoing maintenance of necessary equipment for regional privatization.

7. Training of officials of the Borrower, local consultants and enterprise managers in skills relevant to the privatization process, including organization of on- and off-site instruction and preparation and distribution of training materials pursuant to a training program.

Part C: Business Development and Promotion

1. Implementation of up to six pilot business advisory and infrastructure projects.

2. Strengthening of the analytical capacity of WCER in the area of private sector business activity. Carrying out of policy and program studies on measures supportive of small business and new enterprises.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15	
beginning August 15, 1998 through February 15, 2010	3,750,000

* 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.

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 Part 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. To the extent practicable, contracts shall be grouped into bid packages estimated to cost the equivalent of \$300,000 or more each.

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 territory of the Borrower 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 estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount equivalent to \$1,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

2. Items or groups of items estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three local suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for equipment and materials 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 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

In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause to be employed 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.

SCHEDULE 5

Implementation Program

I. Organization and Management of Part C of the Project

A. Part C of the Project will be carried out by the Borrower through WCER, with the assistance of the Privatization Center in the procurement of goods and services and for making disbursements to suppliers, in accordance with the applicable provisions of the Subsidiary Project Management Arrangements.

B. WCER will:

(1) assign a core Project team, consisting of at least four full-time staff, whose qualifications and terms of reference shall be acceptable to the Bank, to oversee implementation of Project activities.

(2) make available and maintain appropriate office facilities and support staff, which shall be acceptable to the Bank.

(3) engage a consultant in accordance with Section II of Schedule 4 to this Agreement to assist the core team during the execution of the Project.

II. Implementation of Project Components under Part C of the Project

A. Pilot Projects (Part C.1)

(1) The ultimate design and technical responsibility for the pilot projects will be delegated by WCER to project managers selected in accordance with procedures acceptable to the Bank. The project managers will be assigned to operate local facilities with the support of consultants.

(2) Contracts for the operation of each local facility established as a pilot project will be appraised by WCER on the basis of criteria acceptable to the Bank, and will consist of foreign and local consultants, engaged in accordance with Section II of Schedule 4 to this Agreement, to assist management and provide training and advice.

(3) WCER will:

(a) provide overall coordination of the pilot projects;

(b) monitor progress in achieving the objectives of the Project; and

(c) evaluate performance of project managers and consultants.

B. Central Policy and Programs (Part C.2)

The Borrower will ensure that the core team at WCER which is responsible for Part C of the Project, together with any consultants engaged in this component:

(1) have appropriate access to information collected by agencies of the Borrower for purposes of gathering and analyzing relevant data, and

(2) have support for the utilization and dissemination of the resulting information through appropriate channels.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 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.

