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CONFORMED COPY

LOAN NUMBER 4680 RU

Loan Agreement

(Second Tax Administration Modernization Project)

between

RUSSIAN FEDERATION

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 30, 2002

LOAN NUMBER 4680 RU

LOAN AGREEMENT

AGREEMENT, dated December 30, 2002, 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 (the Project), has requested the Bank to assist in the financing of the Project; 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;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Agency Agreement” means an agreement, acceptable to the Bank, to be entered into between MOF and MinTax and Federal Center for Project Finance pursuant to Section 6.01 of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Agency Agreement;

(b) “FCPF” means the open joint-stock company Federal Center for Project Finance, a legal entity organized and established pursuant to the Federal Law of the Russian Federation No. 208-FZ of December 26, 1995, on Joint-Stock Companies, and Government Resolution of June 2, 1995 (No. 545), and operating on the basis of its

Charter dated February 22, 1999, as amended to the date of this Agreement, and registered with the Moscow Registration Chamber on March 29, 1999 (No. 38-473-III1); and such term shall include any successor or successors thereto;

(c) "FDPC" means inter-regional inspection for central data processing in Moscow;

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

(e) "GNIVTs" means the State Research Computer Center of MinTax;

(f) "MinTax" means the Borrower's Ministry of Taxes and Fees, or any successor thereto;

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

(h) "RDPC" means inter-rayon inspection for central data processing; and

(i) "Special Account" means the account referred to in Section 2.02 (b) of this 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, an amount equal to one hundred million dollars (\$100,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan.

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

Section 2.03. The Closing Date shall be June 30, 2008, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. Such fee shall be payable not later than 30 days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in US dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that

include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its obligations under the Loan Agreement, shall carry out the Project through MinTax with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices; and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheet, statements of sources and uses of funds, and related statements) for each fiscal year audited, in accordance with auditing standards consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in sub-paragraph (i) of this Section for such year so audited, and (B) an opinion on such statements, records and accounts, and report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank 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, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(d) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (c) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors on the financial monitoring reports (FMRs) submitted during such fiscal year, and 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; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

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

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

ARTICLE V

Remedies of the Bank

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

- (a) an extraordinary situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and
- (b) the Agency Agreement shall have been amended, suspended, abrogated, or repealed so as to affect materially and adversely the implementation of the Project.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Agency Agreement has been entered into between the parties thereto.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Ilyinka Street 9
103097 Moscow
Russian Federation

Telex:

Facsimile:

112008

(7-095) 925-0889

For the Bank:

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

Cable address:

Telex:

Facsimile:

477-6391

INTBAFRAD

248423 (MCI) or

(1 202)

Washington, D.C.

64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Moscow, Russian Federation, as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ Victor B. Khristenko
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Julian Schweitzer
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods and technical services	75,800,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 80% of local expenditures for other items procured locally, including local transportation and insurance related to those items
(2) Consultants' services, training and audit	18,700,000	87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms, including project audit
(3) Incremental operating costs	3,000,000	87% of FCPF staff salaries and individual consultants; 100% of eligible social charges; 84% of other costs
(4) Unallocated	<u>2,500,000</u>	
TOTAL	100,000,000	

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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 for goods, services or technical services contracts;

(c) the term “Training” means Project related costs and expenses related to study tours, seminars, workshops and other training activities which may be carried out through a consultant services contract or, with the agreement of the Bank, by other means;

(d) the term “Incremental Operating Costs” comprises: (i) salaries and benefits of individual consultants for MinTax, salaries and benefits of FCPF staff and consultants employed for the purposes of Project management (all within a range for each position acceptable to the Bank), utility charges at a rate not to exceed the rate in domestic prices payable by comparable organizations, locally procured office equipment and supplies, costs payable in connection with rental of office space, maintenance of office equipment, systems and facilities, insurance, training, organization and attendance of conferences and seminars, and other ordinary and necessary costs payable by FCPF on account of Project implementation, that would be payable by entities similarly situated on the territory of the Borrower and customarily regarded as a cost of doing business, including administrative costs such as travel expenses and allowances, bank charges, and communications and related expenses; and (ii) amounts payable to GNIVTs under a contract to carry out the activities specified in Schedule 5, paragraph A.4; provided, however, that the expenditures hereunder shall be as set forth in the approved budgets which shall have been adopted pursuant to the provisions of Part D of Schedule 5 to this Agreement; and

(e) the term “eligible social charges” comprises social security charges representing a payment for a future benefit.

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; and (b) any expenditures under any Category in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, under such terms and conditions as the Bank shall specify by notice to the Borrower, for: (a) goods under contracts not exceeding \$100,000 equivalent each; (b) services of consulting firms under contracts not exceeding \$100,000 equivalent each; (c) services of individual consultants under contracts not exceeding \$50,000 equivalent each; (d) training; and (e) incremental operating costs.

SCHEDULE 2

Description of the Project

The objective of the Project is to carry out a systematic reform and modernization of the tax administration of the Borrower, so as to: facilitate voluntary compliance, increase administrative efficiency; strengthen enforcement capacity, enhance professional integrity and skills, and increase fairness in the implementation of tax laws.

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: Tax Administration Management

1. Organization and Management

(a) Organizational Structure

Provision of support for activities aimed at assisting the implementation of the functional structure at the federal, regional and local levels including the implementation and reorganization of territorial and local tax offices and the refurbishment of offices to support the reorganization.

(b) Management System

Provision of support for activities aimed at reviewing and strengthening the organizational units in MinTax and at the regional level for formulation of operational strategy, setting targets for different operational areas, developing indicators to measure performance, preparing annual business plans, preparing budgets, assessing workload and allocating resources, and assistance in strengthening the Internal Audit Department and reviewing and improving communication systems between and within MinTax and territorial offices and between MinTax and other related government agencies.

(c) Development of Standardized Workflows in Tax Administration at all Levels

Provision of support for the re-engineering of business processes for organization and management in federal, inter-regional, regional and local offices including the development of manuals documenting the standard processes to be followed by all offices.

(d) Revenue Forecasting and Tax Modeling

Assistance in developing and implementing a revenue forecasting and tax modeling system.

(e) Change Management

Provision of technical assistance in support of activities aimed at developing and implementing appropriate strategies for managing organizational change at all levels of the tax administration, including communication strategies to explain the rationale and potential impact of proposed changes to all managers, staff, taxpayers and other stakeholders.

2. Human Resources and Training

(a) Human Resource Management

Provision of support for the development of transparent and standard procedures for the recruitment, selection, hiring and dismissal of personnel and developing career paths based on the new functional organization occupational categories; and provision of technical assistance to MinTax in developing benefits packages for the tax authorities staff to enable them to carry out their duties, including optimization of performance incentives and pay system.

(b) Training Delivery

Provision of technical assistance to develop the actual training program that will be delivered to the project regions and headquarters.

(c) Improve Professional Ethics

Provision of technical assistance to improve the Ministry's capacity to manage professional ethics by developing legislation and other regulatory and legal acts related to the protection of tax officials from illegal encroachments, and provision of technical assistance in developing and implementing a strategy for the prevention of potential offences on the part of certain tax authority officials and developing methods for assessments of staff integrity and the fair treatment of the taxpayers, including development of the code of ethics.

3. Infrastructure

(a) Establishment of the FDPC

Provision of technical assistance in establishing the FDPC through legislative changes, preparation of physical facilities, procurement and implementation of adequate hardware, software and telecommunications equipment, and optimization of the number of personnel and redistribution of functions among the FDPC, RDPCs, and territorial tax authorities.

(b) Establishment of RDPCs

Provision of technical assistance in establishing RDPCs in a number of regions through legislative changes, preparation of physical facilities, procurement and implementation of adequate hardware, software and telecommunications equipment, and optimization of the number of personnel and redistribution of functions among the FDPC, RDPCs and territorial tax authorities.

(c) IT Infrastructure

Provision of technical assistance in the design of a corporate telecommunications network and the design, development and implementation and maintenance of an advanced information technology system to support all aspects of tax administration; and technical assistance in the design and implementation of a human resource management information system to enable MinTax to manage its administrative resources effectively.

(d) Physical Infrastructure

Construction and overhaul of administrative buildings, buildings of interregional inspectorates and educational facilities, improvement of storage facilities for tax documents, as well as carrying out activities to establish security systems for facilities of the tax administration, including fire protection and protection of data from criminal actions.

Part B: Tax Administration Operations

1. Legal, Regulatory and Appeals Framework

(a) Legal and Regulatory Framework

Assistance to the Ministry of Finance in developing a comprehensive long-term tax policy, and technical assistance to the Ministry of Finance and MinTax in reviewing the existing tax legislation and regulatory framework and preparing proposals for amendments to legal and regulatory acts and drafting new legislation and regulations for different functional areas and taxes, and improving consistency between various provisions, and harmonizing laws and rules at the federal, regional and local levels.

(b) Appeals

Provision of technical assistance in strengthening the overall appeals system through the development and implementation of an improved administrative appeals system; carrying out of an informational campaign for taxpayers relating to the new system; conducting joint seminars with the judiciary to improve the efficiency and effectiveness of the court appeals system; and developing and implementing a database of court decisions.

2. Unified State Register of Taxpayers

Provision of support for software development and implementation to improve the Unified State Register of Taxpayers, including reviewing and proposing changes to legislation and regulations to require the attachment of a taxpayer identification number (TIN) to specific economic activities.

3. Development of Electronic Filing and Tax Payment Accounting Systems

(a) Electronic filing

Provision of technical assistance in the preparation of requirements analysis and specifications, developing and implementing a system for e-filing, as well as assistance in identifying the legal requirements for e-filing of tax returns and amending current legislation to enable e-filing; and assistance in devising incentives for taxpayers to use e-filing and carrying out communication campaigns and training of taxpayers to encourage e-filing.

(b) Tax Payment Accounting Systems

Provision of technical assistance for the development of the architecture of the system for data interchange with the treasury system, as well as the procurement of software, hardware, and telecommunications services.

4. Audit and Investigation

Technical assistance to strengthen the audit capacity of MinTax through the development of a third-party information system, development and implementation of computerized desk and field audit systems, including piloting invoice cross-checking, development and implementation of a computerized system for selection of cases for field audit, strengthening of intelligence and investigation operations and cooperation with financial police, and implementing a system for processing and accumulating data on incomes and property of citizens.

5. Arrears Management

Support to activities to improve the techniques and procedures for recovery of tax arrears, assistance in improving the data exchange system with the Bank of Russia to retrieve data on arrears amounts accumulated by problem banks, review and implementation of the arrears management information system and policy, and development of guidelines and procedures to write off uncollectable arrears.

6. Taxpayer Services Development

(a) Develop the concept for a comprehensive tax education system for RF citizens

Assistance in designing a national strategy for production and dissemination of educational materials related to taxation.

(b) Taxpayer information and consultancy service

Support for the development of taxpayer information and consultancy services including the development of service standards for the whole country and explanatory materials to guide taxpayers in compliance with the tax laws; assistance in the design and implementation of portals and web sites of MinTax and its regional departments for disseminating materials on current tax legislation issues.

(c) Improve conditions for adherence to the self-assessment principle for the filing of tax returns and related documents

Technical assistance in simplifying and unifying tax forms while ensuring that data necessary for auditing and reconciliation of tax returns is provided by taxpayers, and in developing easily understandable tax return filing instructions for taxpayers.

7. Largest Taxpayer Units

Development of methodologies for effective management of the largest taxpayers, including analysis of the organizational characteristics of their enterprises and the impact of their restructuring on the tax base and tax revenues, and development and implementation of methods and software for forecasting the revenues and tax burden of these taxpayers.

Part C: Project Management

1. Project Management

(a) Project Management

Provision of technical assistance to support project implementation management and project audit.

(b) Development and implementation of an evaluation system

Provision of technical assistance consisting of analysis of the implementation progress based on the reference assessments; introduction of proposals aimed at increasing effectiveness of the activities; carrying out of periodic surveys of taxpayers, managers, staff of MinTax, and other stakeholders to obtain their perception of improvements made in the functioning of the tax administration, continuing problems, and measures to improve project performance.

* * *

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

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in Dollars)*</u>
On each May 15 and November 15 beginning May 15, 2008 through May 15, 2019	4,165,000
On November 15, 2019	4,205,000

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Technical Services

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto may be applied to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Equipment and technical services for training and automation estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Equipment estimated to cost less than US\$100,000 (i.e., initial batches of computer equipment, laptops, audio visual and office equipment), and upgrading and updates of equipment and software estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Minor sundry items, small equipment, network and power cabling estimated to cost less than \$50,000 equivalent per contract up to an aggregate amount not to exceed \$2,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods and spare parts which must be procured as an extension of an existing contract, or must be purchased from the original supplier to be compatible with existing equipment, or are of a proprietary nature, or must be procured from a particular supplier as a condition of a performance guarantee, and costing \$250,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first three contracts for goods to be procured in accordance with procedures referred to in each of Parts C.2 and C.3 above; and (ii) all contracts for goods to be procured in accordance with the procedures referred to in C.4 above, the following procedures shall apply:

- (i) prior to the issuance of invitation to quote, the Borrower shall provide to the Bank a copy of the specifications and draft contract;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotation(s) received; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

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

2. The short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part B: Quality- and Cost-based Selection

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

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for consulting related to the design of a corporate telecommunications network and to the development of the architecture for data interchange, software, hardware and telecommunications specifications for the tax payment accounting system shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services for consulting related to development of pilot campaigns for dissemination of tax-related information may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-Cost Selection

Services for consulting related to project audits may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Section III of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications

Services for project financial management, and development of the appeals framework, tax payment accounting system, field audit system and software, and taxpayer services as agreed between the Borrower and the Bank, and estimated to cost less than \$1,400,000 in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

5. Individual Consultants

Specialized services related to the reform of tax administration including taxpayer services, audit and investigation, arrears management, and the development of analytical capacity and modeling, as well as services related to project management, and estimated to cost less than \$2,000,000 in the aggregate, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

(d) With respect to each contract for the employment of consulting firms and individual consultants not referred to in paragraphs (b) and (c) above, terms of reference

shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

Section III. Procurement of Other Services

1. Services related to external study tours for government officials, specialized project and change management training and conference participation estimated to cost less than \$2,000,000 equivalent in aggregate may be procured under contracts awarded in accordance with the provisions of 3.8 through 3.11 of the Consultant Guidelines.

2. Services of suitably qualified agencies may be hired to provide “travel logistic services” after comparison of not less than three substantially responsive price quotations.

SCHEDULE 5

Implementation Program

A. Arrangements for Project Implementation and Management

1. MinTax shall be responsible for ensuring the efficient overall implementation of the Project with appropriate management, qualified staff, and provision of adequate facilities and resources.
2. Except as the Bank shall otherwise agree, MinTax shall maintain a Modernization Department with staffing and authority satisfactory to the Bank to implement the Project.
3. Part of the project management responsibilities including, inter alia, procurement, financial management reporting, accounting and auditing, may be carried out by the FCPF under the terms of the Agency Agreement, subject to adequate prior provision therefor acceptable to the Bank, as provided in paragraph D of this Schedule.
4. For the purposes of carrying out the activities referred to in Schedule 2, paragraphs B.2 and B.4, relating to (a) improvement of the Unified State Register of Taxpayers, and (b) development of a computerized system for selection of cases for field audit, FCPF shall enter into contracts with GNIVTs acceptable to the Bank, in an aggregate amount not to exceed the equivalent of \$900,000.
5. The Ministry of Finance, MinTax and the FCPF shall maintain the Agency Agreement, and except as may be agreed by the Bank, shall not assign, amend, abrogate, or waive the Agency Agreement or any part thereof.

B. Training

1. Regarding the training programs to be carried out under the Project, the Borrower shall:
 - (a) select the beneficiaries of such training programs in accordance with criteria satisfactory to the Bank and providers in accordance with procedures agreed with the Bank; and
 - (b) not later than December 31 of each year, exchange views with the Bank on the training programs to be carried out in the following calendar year.

C. Counterpart Funding Requirements for the Project

Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall ensure that sufficient annual allocations will be made with the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

D. Financial Planning

The Borrower shall ensure the following provision for financial planning under the Agency Agreement:

1. Prior to incurring any commitments related to the Project under the Agency Agreement, FCPF shall submit to MOF, MinTax and the Bank for their prior review and approval the proposed budget with financing sources for expenditures to be incurred under the Project up to the end of the calendar year, in the aggregate and separately for activities of individual consultants for MinTax and for activities involving the carrying out of other project management functions, in such detail as MOF, MinTax and the Bank shall reasonably request. Such budget with financing sources shall identify specifically the expenditures to be financed by the Bank and the Borrower, respectively.
2. For any subsequent year during the implementation of the Project, FCPF shall prepare, by May 15 of the preceding year an aggregate annual budget proposal, and by December 1 a detailed draft annual budget with financing sources in the same manner as provided under paragraph 1 hereof.
3. FCPF shall carry out all Project support activities and incur project-related expenditures during the year in accordance with the Agency Agreement and the approved budget with financing sources.
4. Any changes in the scope of activities or planned expenditures occurring within the current year are subject to prior review and approval by MOF, MinTax and the Bank.

E. Monitoring and Evaluation

The Borrower shall:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;
- (b) furnish to the Bank, on or about July 31, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of

this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by November 1, 2005, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (3) 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 into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

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

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

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

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

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

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

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

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

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

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

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

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