

CONFORMED COPY

LOAN NUMBER 3850 RU

Loan Agreement

(Housing Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 25, 1995

LOAN NUMBER 3850 RU

LOAN AGREEMENT

AGREEMENT, dated April 25, 1995, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) By Resolution No. 869 of the Government of the Borrower, of July 26, 1994 (Resolution No. 869), the Government of the Borrower has adopted a plan of actions, objectives and policies designed to achieve the socio-economic development of the Borrower for 1995 and the following period (the Government Action Plan), including among the priority economic objectives for this period various measures concerning the improvement of the legal and regulatory framework for development of municipal land markets, and the development of the housing construction, housing finance and building materials industries, and envisaging, in implementation thereof, targeted federal and local programs of public investment and establishment of active private investment markets in support of those sectors;

(B) Under the framework of the Government Action Plan, responsibility for implementation of the federal programs connected with the reform of municipal land markets and development of the housing construction, housing finance and building materials industries has been vested in the Ministry of Construction of the Borrower (Minstroï), in coordination

with an interministerial commission (the IMC), acting under relevant federal legislation and decisions of the Government which may be adopted from time to time during the implementation of the Government Action Plan;

(C) Minstroi has established a specific program for the improvement of municipal land resources (the Municipal Land Development Program), as described in Part A.1 of Schedule 2 to this Agreement, involving financial and technical assistance to certain representative cities in the territory of the Borrower (the Participating Cities, as hereinafter defined), in conjunction with coordinated undertakings by such cities to implement (with the assistance of the corresponding oblast and krai as necessary) specific reforms and essential regulatory measures (the Regulatory Action Plans, as hereinafter described);

(D) The Cities of Barnaul (Barnaul), Nizhny Novgorod (Nizhny Novgorod), Novgorod (Novgorod), St. Petersburg (St. Petersburg) and Tver (Tver), having manifest their intention to undertake the relevant requirements of the Municipal Land Development Program by, inter alia, adoption of appropriate resolutions or other proper manifestations of intent, namely, by Resolutions dated October 6, 1994 (Ref. No. 392 - Administration of Barnaul) and October 15, 1994 (Ref. No. 1310 - Administration of Altaiskii Krai); Resolution dated October 11, 1994 (Ref. No. 2232-p - Administration of Nizhny Novgorod); Letter dated August 20, 1994 (Ref. No. 320 - First Deputy Head of Administration of Novgorod); Instruction dated December 15, 1994 (Ref. No. 1256-p - Mayor-Chairman of the Government of St. Petersburg); and Instruction dated October 10, 1994 (Ref. No. 648 - Head of Administration of Tver), wherein are described the respective Regulatory Action Plans to be carried out by such cities in conjunction with the Municipal Land Development Program, have become Participating Cities under the Municipal Land Development Program;

(E) Barnaul, Nizhny Novgorod, Novgorod, St. Petersburg and Tver, in conformity with the requirements of the Municipal Land Development Program, have submitted to Minstroi plans (their Municipal Land Development Plans) describing the initial selection of housing sites proposed to be included by each city in their respective applications for Sub-projects to be financed under the Municipal Land Development Program, and on December 20, 1994, furnished the Bank and the Borrower with Declarations of Commitment (as hereinafter described) in regard to such plans;

(F) Further pursuant to the realization of the economic objectives identified in Recital (A) hereof, the Borrower (i) has recognized the necessity of undertaking the programs described in Parts A.2 and B of Schedule 2 to this Agreement (the Private Housing Development Program and Building Materials Industrial Development Program), together with related institutional and policy development activities as described in Part C of Schedule 2 to this Agreement, all of which Parts (together with Part A.1 of the Project) constitute collectively the Project described in Schedule 2 to this Agreement (the Project); and (ii) has satisfied itself as to the feasibility and priority of the Project;

(G) The Borrower has requested the Bank to assist in the financing of the Project;

(H) The Sub-projects and other relevant activities under Part A.1 of the Project will be carried out by the Participating Cities with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating Cities a portion of the proceeds of the Loan as provided for in this Agreement;

(I) The Sub-projects and other relevant activities under

Parts A.2 and B of the Project will be carried out through Participating Banks (as hereinafter defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating Banks a portion of the proceeds of the Loan as provided for in this Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth in Schedule 8 to this Agreement (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) "Minfin" means the Borrower's Ministry of Finance;
- (b) "Minstroï" means the Borrower's Ministry of Construction;
- (c) "IMC" means the inter-ministerial commission of the Borrower established pursuant to Decree No. 595 of the Council of Ministers of the Borrower of June 20, 1993;
- (d) "CPIU" means the central project implementation unit referred to in Section 3.05 of this Agreement;
- (e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (f) "Sub-project" means a Municipal Land Development Sub-Project, a Private Housing Development Sub-Project, or a Building Materials Sub-Project, as the case may be;
- (g) "Sub-loan" means a Municipal Land Development Sub-loan, a Housing Construction Sub-loan, or a Building Materials Industrial Development Sub-loan, as the case may be;
- (h) "Participating Cities" means the Cities of Barnaul, Nizhny Novgorod, Novgorod, St. Petersburg, Tver, and any other city which may from time to time have been selected by the Borrower for participation in the Program pursuant to Section I of Schedule 6 to this Agreement, which shall have adopted a satisfactory Regulatory Action Plan in conformity with the requirements of sub-paragraph 2 (a) of Section I of Schedule 6 to this Agreement, and from which the Borrower shall have received an application and Declaration of Commitment in conformity with the requirements set forth or referred to in sub-paragraphs 2 (b) and (c) of Section I of Schedule 6 to this Agreement;
- (i) "Participating Oblast" means any oblast, or other political subdivision of the Borrower which is a subject of the Federation, to which any Participating City is legally subject under the laws of the Borrower;
- (j) "Regulatory Action Plans" means the regulatory action plans of Barnaul, Nizhny Novgorod, Novgorod, St. Petersburg and

Tver referred to in Recital (D) of the Preamble to this Agreement, and any similar action plans adopted by other Participating Cities in accordance with the provisions of sub-paragraph 2 (a) of Section I of Schedule 6 to this Agreement;

(k) "Declarations of Commitment" means the written undertakings executed by the Participating Cities referred to in Recital (E) of the Preamble to this Agreement, or any other such undertakings entered into by other Participating Cities pursuant to paragraph 2 (c) of Section I of Schedule 6 to this Agreement, wherein are set forth the obligations of such Participating Cities in connection with the Municipal Land Development Program, as referred to in Section III of Schedule 6 to this Agreement;

(l) "Participating City Implementation Agreements" means the agreements to be entered into by the Borrower with each Participating City pursuant to Section 3.02 (a) of this Agreement;

(m) "Participating City Loan Agreement" and "Participating City Loan" mean, respectively, the agreement to be entered into between the Borrower and each Participating City pursuant to Section 3.02 (b) of this Agreement, and any loan made pursuant to any such Participating City Loan Agreement;

(n) "Municipal Land Development Sub-project" means a specific site development project, defined investment or infrastructure improvement proposed to be undertaken by a Participating City in respect of one or more Qualifying Housing Sites and utilizing, in whole or in part, the proceeds of a Municipal Land Development Sub-loan;

(o) "Qualifying Housing Site" means a specific site comprehended within the scope of a Participating City's Municipal Land Development Plan, which satisfies the criteria set forth in the guidelines referred to in paragraph 1 of Section II of Schedule 6 to this Agreement;

(p) "Municipal Land Development Plan" means a comprehensive plan of Municipal Land Development Sub-projects proposed to be carried out by a Participating City in accordance with its Participating City Implementation Agreement;

(q) "Municipal Land Development Credit Authorization" means the amount of proceeds of the Loan which shall, pursuant to paragraph (c) of Section 3.02 of this Agreement, have been authorized by the Borrower to be utilized by a particular Participating City, by making withdrawals under its Participating City Loan during the period defined by such authorization, for purposes of carrying out the respective Municipal Land Development Sub-projects under such Participating City's Municipal Land Development Plan;

(r) "Municipal Land Development Sub-loan" means a loan made by the Borrower to a Participating City under Part A.1 of the Project for purposes of financing all or a portion of the costs of any specifically approved Municipal Land Development Sub-project under the Participating City's Municipal Land Development Plan;

(s) "LPIU" means the local project implementation unit referred to in sub-paragraph (i) of paragraph 3 of Part B of Section IV of Schedule 6 to this Agreement;

(t) "Local Project Account" means the account referred to in sub-paragraph (iv) of paragraph 3 of Part B of Section IV of Schedule 6 to this Agreement;

(u) "Participating Banks" means the financial institutions which: (i) shall have been duly accredited as Participating Banks under the FIDP in accordance with the applicable criteria

therefor; and (ii) the Borrower shall have accepted, pursuant to Section 3.03 (a) of this Agreement, for purposes of undertaking the financial intermediation of any Housing Project Credit Facilities established under the Project;

(v) "Housing Project Credit Facility" means any credit facility established by the Borrower under the Project, which is intended to be utilized by Participating Banks under Subsidiary Loan Agreements to be concluded between the Borrower and such Participating Banks in accordance with Section 3.03 (b) of this Agreement, and the same term shall include the Private Housing Construction Credit Facility and the Building Materials Industrial Development Credit Facility;

(w) "Private Housing Construction Credit Facility" means the credit facility established under Part A.2 of the Project;

(x) "Building Materials Industrial Development Credit Facility" means the credit facility established under Part B of the Project;

(y) "Accreditation Criteria" means the criteria to be applied under Section 3.03 (a) of this Agreement for the selection of Participating Banks, or the criteria in accordance with which the continued eligibility of such Participating Banks for participation in the financial intermediation of any Housing Project Credit Facility shall be determined under the corresponding provisions of Subsidiary Loan Agreements entered into by such Participating Banks in compliance with paragraph 1 (b) of Part B of Section III of Schedule 7 to this Agreement, as the case may be;

(z) "Subsidiary Loan Agreement" and "Subsidiary Loan" mean, respectively, any agreement entered into between the Borrower and a financial institution pursuant to Section 3.03 (b) of this Agreement, providing for the inclusion of such financial institution as a Participating Bank for purposes of undertaking the financial intermediation of any Housing Project Credit Facility, and any loan made pursuant to any such Subsidiary Loan Agreement;

(aa) "Housing Project Credit Line" means the maximum amount of financing which may be made available to a particular Participating Bank under its Subsidiary Loan Agreement, under the terms and conditions thereof, and in accordance with the applicable policies of the respective Housing Project Credit Facility;

(ab) "Sub-borrower" means the Private Developer or other entity to which a Participating Bank proposes to make or has made a Sub-loan out of its Housing Project Credit Line as described in paragraph (c) of Section 3.03 of this Agreement;

(ac) "Developer" means a person or entity engaged in the business of development of residential real estate, and such entity is a "private" developer where it is not directly or indirectly controlled by the Borrower or a political or administrative subdivision thereof, by any agency of the Borrower or any subdivision thereof, or by any regional or local governmental body, and where the total shareholding or other equity interests of the Borrower or any such subdivision, agency or governmental body in such entity do not exceed twenty-five percent;

(ad) "LPRC" means the Loan Policy Review Committee to be established pursuant to paragraph 1 of Section I of Schedule 7 of this Agreement;

(ae) "Free-limit Sub-loan" means any Sub-loan made by a Participating Bank under a Housing Project Credit Facility, other than: (i) the first two Sub-loans made by a given Participating Bank under the Housing Project Credit Facility

concerned (and provided that, in the case of each of such Sub-loans, the application and information submitted by such Participating Bank, as required under the guidelines applicable to such Housing Project Credit Facility, shall have been considered satisfactory to the Bank upon its review thereof); or (ii) a Sub-loan made in an amount greater than: (A) \$5,000,000; or (B) 10 percent of the capital of such Participating Bank;

(af) "Private Housing Development Sub-project" means a specific Qualifying Private Housing Development proposed to be undertaken by a Private Developer utilizing, in whole or in part, the proceeds of a Housing Construction Sub-loan;

(ag) "Qualifying Private Housing Development" means an undertaking to construct, improve, complete or renovate housing satisfying the criteria referred to in paragraph 2 (b) of Section I of Annex 1 to Schedule 7 to this Agreement;

(ah) "Housing Construction Sub-loan" means a loan made by a Participating Bank under Part A.2 of the Project for purposes of financing a Private Housing Development Sub-project;

(ai) "Qualifying Regional Land Development Area" means any specifically defined area comprising land subject to the jurisdiction of a Participating Oblast, the development of which is not already comprehended within the Municipal Land Development Plan of any Participating City, but is satisfactorily embraced within the scope of another regulatory action plan adopted by the governmental entity having jurisdiction thereto, in accordance with the provisions of paragraph 2 (b) of Section I of Annex 1 to Schedule 7 to this Agreement;

(aj) "Building Materials Sub-project" means a specific Qualifying Building Materials Industry Investment proposed to be undertaken by an Eligible Building Materials Industry Enterprise utilizing, in whole or in part, the proceeds of a Building Materials Industrial Development Sub-loan in accordance with the terms and conditions set forth in Section II of Annex 2 to Schedule 7 to this Agreement;

(ak) "Qualifying Building Materials Industry Investment" means an investment in the building materials industry of the Borrower satisfying the criteria referred to in paragraph 2 (b) of Section I of Annex 2 to Schedule 7 to this Agreement;

(al) "Eligible Building Materials Industry Enterprise" means an enterprise satisfying the criteria set forth or referred to in paragraph 1 of Section I of Schedule 9 to this Agreement;

(am) "Eligible Building Materials Industry Investment Partner" means a building materials manufacturer or distributor, or venture capital fund, or other entity similar thereto, satisfying the criteria set forth or referred to in paragraph 2 of Section I of Schedule 9 to this Agreement;

(an) "Building Materials Industrial Development Sub-Loan" means a loan made by a Participating Bank under Part B of the Project for purposes of financing a Building Materials Sub-project;

(ao) "FIDP" means the Financial Institutions Development Program of the Borrower, in connection with which the Bank has made the FIDP Loan to the Borrower;

(ap) "FIDP Loan" means the loan made by the Bank to the Borrower by agreement between the Borrower and the Bank dated June 22, 1994;

(aq) "Enterprise Support Project" means the Enterprise Support Project of the Borrower, in support of which the Bank

has made the ESP Loan to the Borrower, and as the same is described more particularly in Schedule 2 to the ESP Loan Agreement; and

(ar) "ESP Loan" means the loan made by the Bank to the Borrower by agreement between the Borrower and the Bank dated September 27, 1994, and "ESP Loan Agreement" means such agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of four hundred million dollars (\$400,000,000), 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($\frac{3}{4}$ 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 ($\frac{1}{2}$ 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 semi-annually on February 1 and August 1 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial, economic, engineering and environmental protection standards and in accordance with sound administrative and housing industry practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

(b) without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, shall carry out Part A.1 of the Project in accordance with the Implementation Arrangements for the Municipal Land Development Program set forth in Schedule 6 to this Agreement and Parts A.2 and B of the Project in accordance with the General Arrangements for On-lending set forth in Schedule 7 to this Agreement and the Implementation Program for the Building Materials Industrial Development Program set forth in Schedule 9 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Bank and the Borrower shall otherwise agree, for purposes of Part A.1 of the Project the Borrower shall:

(a) assist the Participating Cities to carry out their Municipal Land Development Plans in accordance with their

Declarations of Commitment as furnished to the Bank and the Borrower, duly acknowledging and confirming the same, upon satisfaction of all appropriate conditions precedent thereto, as constituting an effective agreement (the Participating City Implementation Agreement) between the Borrower and the Participating City, setting forth the obligations of the Participating City with respect to the implementation of its respective activities under Part A.1 of the Project;

(b) relend, as an appropriation out of the proceeds of the Loan allocated from time to time to Categories (1), (2) and (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, the amount of financing required by the Participating Cities in respect of their approved Municipal Land Development Sub-projects, under loan agreements (the Participating City Loan Agreements) to be entered into between the Borrower and each such Participating City upon terms and conditions satisfactory to the Bank, including, without limitation, the terms and conditions set forth in Section IV of Schedule 6 to this Agreement;

(c) each year during the implementation of the Municipal Land Development Program, carry out a review of the Participating Cities' progress in meeting the objectives set forth in their respective Regulatory Action Plans and, on the basis of findings made in such review, and in accordance with other relevant criteria and procedures acceptable to the Bank:

- (i) approve the proposed Municipal Land Development Plan of each such city for the year concerned, and furnish to the Bank, by September 30 of each year, a budget showing the amounts estimated to be required for each Participating City for the year next following corresponding to the Sub-projects in the Municipal Land Development Plans so approved, and give the Bank an opportunity to comment thereon;
- (ii) authorize, as an appropriation out of the proceeds of the Loan allocated from time to time to Categories (1), (2) and (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, the amounts to be re-lent to each of the Participating Cities under their Participating City Loan Agreements, in accordance with the budget referred to in sub-paragraph (i) of this paragraph, for the Sub-projects in such Participating Cities' Municipal Land Development Plans for the year next following (the Municipal Land Development Credit Authorizations), taking into account the Bank's views thereon, and notify each of the Participating Cities with regard to their respective Municipal Land Development Credit Authorizations; and
- (iii) by October 31 of each year, furnish to the Bank a certificate, in the form requested by the Bank for purposes of supporting applications for withdrawal and other purposes related to the Loan, confirming the eligibility of each such Participating City for financial assistance under the Municipal Land Development Program in the year next following, and setting forth the corresponding amounts of such assistance and any other information related to the Participating City which may be reasonably requested by the Bank;

(d) cause the Participating Cities to perform in accordance with their respective Participating City Implementation Agreements and Participating City Loan Agreements all the obligations and activities of the Participating Cities therein

set forth, including all the obligations previously set forth in the form of Declarations of Commitment and made effective pursuant to paragraph (a) of this Section (which shall include, without limitation, the obligations set forth or referred to in Section III of Schedule 6 to this Agreement); and

(e) take or cause to be taken all other action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Participating Cities to perform such obligations; and not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Bank and the Borrower shall otherwise agree, the Borrower shall, for purposes of carrying out Parts A.2 and B of the Project:

(a) select the financial institutions to participate in financial intermediation of the credit facilities to be established under Parts A.2 and B of the Project (the Housing Project Credit Facilities), in accordance with the eligibility criteria and procedures set forth or referred to in Section II of Schedule 7 to this Agreement;

(b) in the case of each such financial institution, and for the particular Housing Project Credit Facility concerned, cause an agreement to be entered into between MOF, acting as agent of the Borrower, and the financial institution (the Subsidiary Loan Agreement), providing for the inclusion of such financial institution as a Participating Bank for purposes of undertaking the financial intermediation of the corresponding Housing Project Credit Facility, and setting forth the terms and conditions under which the corresponding amounts of credit shall be made available to such Participating Bank for the purpose of financing Sub-projects thereunder;

(c) relend to each such Participating Bank, out of the proceeds of the Loan allocated from time to time to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, up to the maximum amount which such Participating Bank may be eligible to draw under its Subsidiary Loan Agreement in accordance with the terms and conditions thereof and in accordance with the applicable policies of the respective Housing Project Credit Facility (the Participating Bank's Housing Project Credit Line), the amount required to finance the costs of goods and services reasonably incurred by a Sub-borrower in the carrying out of an approved Sub-project, under an agreement to be entered into between the Participating Bank and such Sub-borrower under terms and conditions satisfactory to the Bank, which shall include, without limitation, the terms and conditions referred to in paragraph 1 (c) of Part B of Section III of Schedule 7 to this Agreement;

(d) coordinate the overall execution of Parts A.2 and B of the Project and monitor the carrying out by the Participating Banks of their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Bank;

(e) take or cause to be taken all actions necessary or appropriate to enable the Participating Banks to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the Participating Banks therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(f) exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, not

assign, amend, abrogate or waive any such Agreement or any provision thereof.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the facilities financed under the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 3.05. In order to facilitate the efficient carrying out of the Project, the Borrower shall establish and thereafter maintain during the execution of the Project, with membership, staff and other resources and under terms of reference satisfactory to the Bank, a Central Project Implementation Unit (CPIU) within Minstroi to be responsible for the day to day coordination of the execution of the Project.

Section 3.06. Except as the Bank shall otherwise agree, procurement of the goods, works 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 3.07. The Borrower shall:

(a) carry out all technical assistance included in the Project under terms of reference satisfactory to the Bank which shall include specific programs or plans of action to meet the objectives of the Project;

(b) promptly after the completion of each technical assistance activity, furnish to the Bank a copy of its findings and recommendations and of any reports prepared, including such programs or plans of action; and

(c) afford the Bank a reasonable opportunity to comment on such findings, recommendations and programs or plans of action.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain or cause to be maintained procedures and records adequate to monitor and record the progress of the Project and of each Sub-project (including its cost and the benefits to be derived from it) and to reflect in accordance with sound accounting practices the operations and financial condition of Participating Banks and other agencies responsible for carrying out any Part of the Project.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound 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: (A) certified copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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 Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. Except as the Bank shall otherwise agree, the Borrower shall, in respect of any repayments of principal and interest to be made by the Participating Banks under their respective Subsidiary Loans:

(a) open, by the date on which it shall receive the first such repayment, and thereafter maintain, in a bank acceptable to the Bank, a separate account, on terms and conditions satisfactory to the Bank; and

(b) upon receipt of each such repayment, credit the same to the said separate account. All amounts to be so credited shall be utilized, to the extent they are not yet required to meet the Borrower's repayment obligations under this Agreement, exclusively to finance, through the Participating Banks: (i) other Qualifying Private Housing Developments or Qualifying Building Materials Industry Investments on similar terms and conditions as those applicable to the Sub-loans made out of the respective Housing Project Credit Lines so repaid and credited to the said separate account; or (ii) if such Participating Bank is also a Participating Financial Intermediary for purposes of the Enterprise Support Project, Qualifying Investments, as such term is defined in Section 1.02 (e) of the ESP Loan Agreement.

Section 4.04. Except as the Bank shall otherwise agree, the Borrower shall, in respect of any repayments of principal and interest to be made by the Participating Cities under their respective Participating City Loans:

(a) open, by the date on which it shall receive the first such repayment, and thereafter maintain, in a bank acceptable to the Bank, a separate account, on terms and conditions satisfactory to the Bank; and

(b) upon receipt of each such repayment, credit the same to the said separate account. All amounts to be so credited shall be utilized, to the extent they are not yet required to meet the Borrower's repayment obligations under this Agreement, exclusively to finance improvements contributing to the amount and quality of municipal land available for private housing development and improvements in related housing infrastructure of cities under the Municipal Land Development Program, on similar terms and conditions as those applicable to the Participating City Loans so repaid and credited to the said separate account.

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 Government Action Plan, or the Municipal Land Development Program, or the Private Housing Development Program, or the Building Materials Industrial Development Program shall have been amended, suspended, abrogated, repealed or waived, so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;

(b) The Regulatory Action Plan shall have been amended, suspended, abrogated, repealed or waived in respect of any Participating City, so as to affect materially and adversely the ability of such Participating City to fulfill the objectives of the Project or to perform any of its obligations under its Participating City Implementation Agreement or its Participating City Loan Agreement;

(c) 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 Participating Cities, or any of them, will be able to perform their obligations under their Participating City Implementation Agreements or Participating City Loan Agreements; and

(d) The Accreditation Criteria or the FIDP shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Participating Banks or their ability to carry out any Part of the Project or to perform any of their obligations under the Subsidiary Loan Agreements.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely that any of the events specified in paragraphs (a), (b) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) Participating City Implementation Agreements and Participating City Loan Agreements have become effective in accordance with their terms, with respect to at least three of

the Participating Cities named in Recital (D) of the Preamble to this Agreement;

(b) the CPIU has been established and its director appointed; and

(c) a consultants' contract relating to the provision of services to assist the Borrower in project management has been executed acceptable to the Bank.

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 three Participating City Implementation Agreements referred to in Section 6.01 (a) of this Agreement have been duly authorized and ratified by the Participating Cities thereto, and are legally binding upon the same Participating Cities in accordance with their terms; and

(b) that the three Participating City Loan Agreements referred to in Section 6.01 (a) of this Agreement have been duly authorized or ratified by the Borrower and the Participating Cities thereto, and are legally binding upon the Borrower and such Participating Cities 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

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance or the 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
Ul. Ilyinka, 9
103097 Moscow
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:

INTBAFRAD
Washington, D.C.

Telex:

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.

RUSSIAN FEDERATION

By /s/ Anatoly Chubais
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz
Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	150,000,000	80%
(2) Goods	15,000,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Lines of Credit:		
(a) Sub-loans for Private Housing Development Sub- projects:		100% of amounts withdrawn by Sub- borrowers for qualifying ex- penditures under Sub-loans
(i) On Reserved Sites	40,000,000	
(ii) On Unreserved Sites	40,000,000	
(b) Sub-loans for Building Mate- rials Sub- projects	95,000,000	100% of amounts withdrawn by Sub-borrowers for qualifying expenditures under Sub-loans
(4) Technical Assistance	20,000,000	100%

and Training	
(5) Unallocated	40,000,000
	<hr/>
TOTAL	\$400,000,000
	=====

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 and services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) "On Reserved Sites" means that the Private Housing Development Sub-project which is proposed to be financed by the Participating Bank out of its Housing Project Credit Line involves the development of a Qualifying Housing Site in a Participating City, in respect of which a Municipal Land Development Sub-project has been carried out; and

(d) "On Unreserved Sites" means that the Private Housing Development Sub-project which is proposed to be financed by the Participating Bank out of its Housing Project Credit Line involves the development of (i) a Qualifying Housing Site under the conditions described in paragraph (c) of this paragraph, or (ii) any other appropriate housing site comprehended within the scope of a Qualifying Regional Land Development Area, as such area shall have been defined by a Participating Oblast, or shall otherwise have been encompassed within the scope of a Regulatory Action Plan or other measures adopted by a governmental entity in accordance with the provisions of paragraph 2 (b) of Section I of Annex I to Schedule 7 to this Agreement.

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

(a) expenditures under Categories (1) or (2) of this Schedule, for a Municipal Land Development Sub-Project in any Participating City, unless:

- (i) the Borrower has furnished evidence acceptable to the Bank that the corresponding Participating City Implementation Agreement and Participating City Loan Agreement have been executed, and are valid and legally binding upon, the Borrower and such Participating City; and
- (ii) the Sub-project has been approved in accordance with the procedures set forth or referred to in Section II of Schedule 6 to this Agreement.

(b) expenditures by any Sub-borrower for any Sub-project under Category (3)(a) of this Schedule, until the FIDP Loan has been declared effective and until Subsidiary Loan Agreements shall have been concluded with at least two Participating Banks in respect of Part A.2 of the Project and unless:

- (i) the Sub-loan, and the Sub-project in respect of which the Sub-loan is made, have been authorized or approved in accordance with the procedures and on the terms and conditions set forth or referred to in Annex 1 to Schedule 7 to this Agreement;
- (ii) the city in which the Sub-project is located has

executed a Participating City Implementation Agreement and Participating City Loan Agreement with the Borrower, and the Borrower shall have furnished evidence acceptable to the Bank that the corresponding Participating City Implementation Agreement and Participating City Loan Agreement have been duly executed, and are valid and legally binding upon, the Borrower and such Participating City;

- (iii) the certificate of eligibility referred to in Section 3.02 (c) (iii) of this Agreement shall have been furnished to the Bank, confirming the eligibility of such Participating City for the year concerned; and
- (iv) the Borrower shall have furnished evidence acceptable to the Bank that the corresponding Subsidiary Loan Agreement has been duly executed, and is legally binding upon, the Borrower and the Participating Bank concerned;

provided, however, that notwithstanding the provisions of this paragraph, the Participating City Implementation Agreement, Participating City Loan Agreement and certificate referred to in sub-paragraphs (ii) and (iii) hereof shall not be required in the case of Qualifying Private Housing Developments which are demonstration projects for Moscow;

(c) expenditures by any Sub-borrower for any Sub-project under Category (3)(b) of this Schedule until the FIDP Loan has been declared effective and until a Subsidiary Loan Agreement shall have been concluded with at least two Participating Banks in respect of Part B of the Project, and unless:

- (i) the Sub-loan, and the Sub-project in respect of which the Sub-loan is made, have been authorized or approved in accordance with the procedures and on the terms and conditions set forth or referred to in Annex 2 to Schedule 7 to this Agreement; and
- (ii) the Borrower shall have furnished evidence acceptable to the Bank that the corresponding Subsidiary Loan Agreement has been executed, and is legally binding upon, the Borrower and the Participating Bank concerned; and

(d) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed the equivalent of \$30,000,000, may be made on account of expenditures made under Categories (1), (2), (3) and (4) before that date but after December 15, 1994.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure:

- (a) under Categories (1), (2) and (4), for expenditures under contracts for goods, works and services not exceeding \$50,000 equivalent;
- (b) under Category (3), for expenditures under contracts for goods not exceeding \$4,000,000 equivalent; and
- (c) for consultants' services not exceeding \$250,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (1) to facilitate the

further transformation of the Borrower's municipal housing markets by assisting their transition towards a market-based housing construction and housing finance system; and (2) to stimulate the carrying out of such municipal land developments, commercially-financed private housing developments and building materials industry investments in the territory of the Borrower, as are likely to demonstrate the utility of such systemic transformation.

Subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives, the Project consists of the following parts:

Part A: Housing Market Development

1. Municipal Land Development Program

Financial and technical assistance in the identification, supply and servicing, through Municipal Land Development Sub-projects, of selected housing sites in Participating Cities contributing to the amount and quality of improved land available in such Participating Cities for construction of housing.

2. Private Housing Development Program

Establishment and operation of a targeted credit facility, intermediated by Participating Banks, enabling Private Developers to carry out selected Qualifying Private Housing Developments.

Part B: Building Materials Industrial Development Program

Establishment and operation of a targeted credit facility, intermediated by Participating Banks, enabling selected Eligible Building Materials Industry Enterprises, having qualifying equity participation of Eligible Building Materials Investment Partners, to carry out selected Qualifying Building Materials Industry Investments.

Part C: Institutional and Policy Development

Strengthening the institutional capacity of Participating Cities, Participating Banks, and Private Developers to operate successfully within a market-based housing construction and housing finance system, including for supervision and administration of the Project.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1	
beginning August 1, 2000 through August 1, 2011	16,665,000
And on February 1, 2012	16,705,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works 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), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to

and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of sub-paragraphs (i) and (iii) of paragraph 2 (a) of Part D of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (ii) any subsequent extension of the bid validity period.

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

2. Bidders for the works included in Part A.1 of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Items or groups of items for works estimated to cost less than the equivalent of \$1,000,000 per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank. Bidders for the works included in this paragraph shall be prequalified as described in paragraph 2.10 of the Guidelines.

2. Items or groups of items for specialized equipment and replacement parts, up to an aggregate amount not to exceed the equivalent of \$1,100,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

3. Items or groups of items for goods estimated to cost the equivalent of \$300,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$500,000, may be awarded on the basis 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.

4. Items or groups of items for goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$400,000, may be awarded on the basis of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

5. Contracts for specialized proprietary equipment, including dewatering centrifuges and spare parts for such equipment, up

to an aggregate amount not to exceed the equivalent of \$900,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Parts A.2 and C.1 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to: (i) each contract for goods estimated to cost the equivalent of \$300,000 or more, (ii) the first contract for goods proposed to be procured in accordance with Part C.2 hereof; (iii) each contract for works estimated to cost the equivalent of \$500,000 or more; (iv) the first two contracts for works proposed to be procured in accordance with Part C.1 hereof; and (v) each contract for specialized equipment and spare parts proposed to be procured in accordance with Part C.5 hereof, 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 5 to this Agreement.

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

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

Section II. Employment of Consultants

1. In order to assist the Borrower in 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 (the Consultants Guidelines). For complex, time-based assignments, such consultants shall be employed under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall cause other standard forms agreed with the Bank to be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultants Guidelines requiring prior Bank review or approval of budgets, short lists,

selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Sub-projects 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, provided, however, that notwithstanding the provisions of paragraphs 3 (b) and 3 (c) of Schedule 1 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) 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, 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 Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for 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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.02 (a) (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, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal

to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

SCHEDULE 6

Municipal Land Development Program Implementation Arrangements

Section I. Selection of Additional Participating Cities

1. The Borrower may identify, in accordance with criteria acceptable to the Bank, from cities included within the scope of the Municipal Land Development Program, appropriate Participating Cities to include under Part A.1 of the Project, in addition to Barnaul, Nizhny Novgorod, Novgorod, St. Petersburg and Tver.

2. A city identified pursuant to paragraph 1 of this Section may be included as a Participating City for purposes of Part A.1 of the Project, provided that such city has:

(a) manifest its intention to carry out an appropriate action plan acceptable to the Bank (the Regulatory Action Plan), concerning the reforms and essential regulatory measures to be undertaken by the Participating City for improving the regulatory environment for housing construction and finance and the residential real estate market in such Participating City and conforming substantially to the Regulatory Action Plans of the Participating Cities referred to in Recital (D) of the Preamble to this Agreement, and in accordance with the objectives and policies of the Municipal Land Development Program;

(b) furnished to Minstroi and the Bank an application, acceptable to the Bank, describing a selection of Qualifying Housing Sites proposed to be developed in accordance with the guidelines applicable to Municipal Land Development Sub-projects under Part A.1 of the Project (as referred to in paragraph 1 of Section II of this Schedule); and

(c) executed a Declaration of Commitment acceptable to the Bank under conditions substantially similar to those applicable to the Declarations of Commitment executed by the Participating Cities referred to in Recital (E) of the Preamble to this Agreement, and setting forth the obligations of the Participating City in connection with their participating in the Municipal Land Development Program, including without limitation the obligations set forth or referred to in Section III of this Schedule.

Section II. Sub-project Eligibility Criteria and Approval Procedures

1. The IMC shall issue guidelines, satisfactory to the Bank, setting forth uniform eligibility criteria to be applied by Participating Cities for the selection of housing sites to be included in the Municipal Land Development Program (Qualifying Housing Sites). Selection by Participating Cities of sites proposed for development under Municipal Land Development Sub-projects and definition of the appropriate parcels comprised therein, which shall be made subject to auctioning, shall be in accordance with such guidelines.

2. The Borrower shall establish approval procedures, satisfactory to the Bank, for specific approval of each Sub-project, sufficient to ensure that no expenditures for goods and services required for any Municipal Land Development Sub-project shall be eligible for financing under a Municipal Land Development Sub-loan unless the financing of such Sub-project shall have been approved by the LPRC and the Bank, and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Section in respect of such Sub-loan.

3. (a) When presenting a Sub-project to the LPRC and the Bank for approval, the Participating City shall furnish to the LPRC and the Bank an application, in a form satisfactory to the Bank, together with an appraisal of the Sub-project, including a description of the expenditures proposed to be financed under the Municipal Land Development Sub-Loan.

(b) A Sub-project shall be eligible for financing under the Municipal Land Development Sub-Loan only: (i) in respect of a Qualifying Housing Site; and (ii) upon selection, appraisal, and processing of the application therefor in accordance with specific criteria and procedures applicable thereto, as shall have been promulgated by the IMC for such purposes, pursuant to paragraphs 1 and 2 of this Section, satisfactory to the Bank.

(c) Applications made pursuant to paragraph (b) of this Section shall be presented to the Bank no later than December 31, 1999.

Section III. Terms and Conditions of Participating City Implementation Agreements

Each Participating City Implementation Agreement shall be made on the basis of a Declaration of Commitment obligating the Participating City to:

(a) carry out the Municipal Land Development Sub-projects included in the Participating City's Municipal Land Development Plan, as the same shall have been approved from year to year by the IMC pursuant to Section 3.02 (c) of the Loan Agreement, and its other respective activities under Part A.1 of the Project with due diligence and efficiency and in conformity with appropriate financial, economic, engineering and environmental protection standards, and in accordance with sound business administration and housing industry practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such Sub-projects and activities;

(b) carry out its activities in connection with its participation in the Municipal Land Development Program in accordance with the provisions of Schedule 6 to the Loan Agreement, and the Guidelines on Land Disposal promulgated under the authority of the Municipal Land Development Program;

(c) undertake to ensure that: (i) with regard to any parcel of land in which infrastructure has been installed in connection with the Municipal Land Development Program, the relevant land rights therein shall thereafter be granted to the Private Developer, to whom the contract for such parcel shall

have been awarded at a competitive auction, in a form of tenure that adequately secures to such Private Developer the legal rights to: (A) create a mortgage on such parcel in connection with the financing of development activities thereon; (B) construct housing thereon; and (C) effect subsequent disposition of the housing so constructed by conveying the corresponding property interests to private purchasers with adequate title thereto; (ii) the beneficiaries of the housing so constructed (whether individual purchasers or condominium associations) shall be granted, upon the closing of the relevant transaction for the purchase of such housing, on demand, and without additional charge, full ownership interest to the parcels of land on which such housing shall have been constructed, such interest to be merged together with the title to the building; and (iii) in the event that any contract referred to in sub-paragraph (i) hereof shall not be capable of timely execution due to a default on the part of the Private Developer, and in consequence thereof, and in accordance with the terms of such contract, some other disposition of such parcel shall be eventuated (including but not limited to proceedings in the nature of foreclosure, forfeiture, or revocation of title), then with regard to any parcel made subject to such consequential disposition, the land rights therein shall again be made available, through competitive auction, in a manner which adequately secures to the successor Private Developer thereto rights equivalent to those provided for in sub-paragraph (i) of this paragraph;

(d) procure the goods and works to be financed under any Municipal Land Development Sub-loan granted in respect of any Municipal Land Development Sub-project in accordance with the provisions of Schedule 4 to the Loan Agreement;

(e) carry out 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 the Municipal Land Development Sub-projects to be carried out by the Participating City under Part A.1 of the Project;

(f) exchange views with the Bank with regard to: (i) the progress of any Municipal Land Development Sub-project and any other activities which are being carried out by the Participating City pursuant to the Municipal Land Development Program; (ii) the performance by the Participating City of its obligations under its Participating City Implementation Agreement and under its Participating City Loan Agreement; (iii) the progress of fulfillment by the Participating City of actions referred to in the Participating City's Regulatory Action Plan; and (iv) any other matters relating to the purposes of the Loan;

(g) cooperate with the CPIU, Ministri and the IMC to ensure that the objectives of the Project are achieved;

(h) maintain or cause to be maintained procedures and records adequate to monitor and record the progress of the Municipal Land Development Sub-projects carried out by the Participating City under Part A.1 of the Project and to reflect in accordance with sound accounting practices the relevant expenditures for such Sub-projects;

(i) have its records and accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(j) open, by the date on which the Participating City shall receive the first receipts from the sale of any parcel tendered pursuant to an auction of Qualifying Housing Sites under the Municipal Land Development Program, and thereafter maintain, a

separate account (the Local Project Account) into which shall be deposited all receipts from sales of land in connection with auctions of housing sites under the Municipal Land Development Program;

(k) utilize the amounts deposited into the said Local Project Account, to the extent they are not yet required to meet the Participating City's repayment obligations under the Participating City Loan Agreement, exclusively to finance the respective costs of carrying out the Municipal Land Development Sub-projects under the current Municipal Land Development Plan;

(l) establish and maintain, with adequate membership, staff and other resources, a local project implementation unit (the LPIU), to be vested, under sufficient legal and administrative authority adequately defined, with the responsibilities for various administrative functions relating to the day-to-day coordination and execution of the Municipal Land Development Plan, and other administrative functions relating to the participation of the Participating City in the Municipal Land Development Program, including, in particular: (i) the operation and management of the Local Project Account; (ii) the supervision of engineers employed for inspection of works under Sub-projects; and (iii) any other administrative functions required in connection with the fulfillment of the objectives of the Project in respect of the activities of the Participating City thereunder;

(m) identify, during the continuancy of the Municipal Land Development Program, from the Participating City's holdings of demarcated land parcels within its territory, sites qualifying for development as Municipal Land Development Sub-projects in accordance with the guidelines referred to in paragraph 1 of Section II of Schedule 6 of this Agreement; and include such sites within a comprehensive plan of proposed sub-projects (the Municipal Land Development Plan), having such scope and detail as may be required under the applicable policies of the Municipal Land Development Program, and taking into account budgetary and other relevant considerations affecting the priority and feasibility of such proposed Sub-projects;

(n) prior to submitting an application to the CPIU for approval of any Municipal Land Development Sub-loan under its Participating City Loan Agreement in respect of the financing of any proposed Municipal Land Development Sub-project, and in respect of each Qualifying Housing Site of which the proposed Sub-project is comprised: (i) offer the individual parcels of land comprising such Qualifying Housing Site to Private Developers at a competitive auction under auction procedures adopted by the Participating City for such purposes, in accordance with the provisions of the Auction Guidelines promulgated under the Municipal Land Development Program; and (ii) enter into a contract granting each of the corresponding parcels for development to the bidder to which such contract shall have been awarded at the auction, under such terms and conditions consistent with policies and decisions promulgated from time to time under the Municipal Land Development Program;

(o) following the conclusion of the auction carried out in respect of a given housing site, (i) modify or amend its Municipal Land Development Plan based upon the results of such auction, taking into account, inter alia, the estimated potential represented by such site for appropriate revenue generation consistent with cost recovery and other financial policies established by the Participating City and other relevant criteria; and (ii) submit the plan so modified or amended to the CPIU for approval, as required for purposes of the corresponding applications to be made for the financing of the corresponding Sub-projects for the relevant period; and

(p) phase its tenders of housing sites at auctions and

schedule the commissioning of works to be carried out in connection with the Municipal Land Development Sub-projects under the Municipal Land Development Plan, in order to limit its potential financial exposure, in accordance with financial management practices and standards promulgated from time to time by IMC.

Section IV. Principal Terms and Conditions of Participating City Loan Agreements

The following terms and conditions shall apply for purposes of the Participating City Loan Agreements entered into pursuant to Section 3.02 (b) of this Agreement.

Part A: Terms

1. Principal Amount of Participating City Loan:

The principal amount of each Participating City Loan shall be denominated and be the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid on account of goods or services financed out of the proceeds of the Participating City Loan for the Municipal Land Development Sub-projects carried out by the Participating City concerned; provided, however, that except as otherwise agreed by the Borrower and the Bank, the maximum amount which may be made available under a Participating City Loan Agreement to the Participating City concerned shall not, for any given year during the execution of the Project, be in excess of the amount notified by the Borrower pursuant to Section 3.02 (c) of the this Agreement as the respective Municipal Land Development Credit Authorization under the Municipal Land Development Program for such Participating City for such year.

2. Interest:

The Participating City shall pay interest on the principal amount of the Participating City Loan withdrawn and outstanding from time to time, at a floating rate up to the equivalent of two and one-half percent (2.50%) above the interest rate determined in accordance with the provisions of Section 2.05 of this Agreement.

3. Repayment Term:

The amount of the Participating City Loan shall be repayable by the Participating City over a term of five (5) years, inclusive of a grace period of two (2) years.

Part B: Conditions

1. The financing to which a Participating City shall be entitled under its Participating City Loan Agreement shall, for any given Qualifying Housing Site, be subject to a maximum amount determined by the Borrower through the LPRC, as a percentage of eligible expenditures to be made by the Participating City in respect of the Sub-project concerned, in accordance with the applicable policies promulgated by the IMC under the Municipal Land Development Program, as the same may be adjusted or amended from time to time, but shall not in any event exceed eighty percent (80%) of the estimated net income from property subject to sale in respect of such Qualifying Housing Site. For purposes of this paragraph, "estimated net income from property subject to sale" shall mean the gross cash receipts of sale in the amount to be tendered by a purchaser with which the Participating City shall have concluded a contract of sale pursuant to the procedures of any auction which shall have been carried out in regard to such housing site in accordance with the procedures set forth in the Attachment to this Schedule, less the expenses reasonably

incurred by the Participating City in carrying out such auction.

2. If the Participating City is not itself a subject of the Federation, the Participating City Loan shall be made only with the agreement of the oblast having jurisdiction over such city (the Participating Oblast) to guarantee such obligations.

3. Each Participating City Loan Agreement shall be subject to the following conditions of effectiveness:

- (i) a corresponding local project implementation unit (LPIU), to be responsible for various administrative functions relating to the organization and management of the Municipal Land Development Sub-projects and administration of withdrawals under the Municipal Land Development Credit Authorization for such Participating City, has been established;
- (ii) the Participating City concerned has adopted a regulation on registration of title, including transactions in land and real estate, acceptable to the Bank;
- (iii) the Participating City concerned has adopted procedures, acceptable to the Bank, on auction and competitive tender of land, having such scope and immediacy of effect sufficient to encompass any housing sites being disposed of by the city under the Municipal Land Development Program; and
- (iv) a separate account (the Local Project Account) has been opened and satisfactory arrangements made for its funding.

ATTACHMENT TO SCHEDULE 6

Guidelines on Auction and Competitive Tender of Housing Sites

Except as the Bank may otherwise agree, auction procedures shall conform to the following guidelines:

1. The auction procedures shall be competitive and open to bids from all eligible Private Developers.
2. Invitations to bid on parcels being tendered at auctions shall be advertised in at least one newspaper of general circulation in the Participating City, and published in sufficient time to enable prospective bidders to prepare and submit their responses, but in any event not less than three weeks before the date of the auction.
3. Bidders shall be permitted to bid on the parcel under alternative tender options consisting of: (i) the parcel, together with infrastructure to be completed by the Participating City as a Municipal Land Development Sub-project (constituting a developed-land housing site); or (ii) the parcel, without additional on-site infrastructure (constituting an undeveloped land housing site).
4. Sealed bids shall be required. Bids shall be opened in public (i.e. bidders or their representatives must be allowed to be present). All bids shall be registered and the amount of each bid disclosed to persons attending the opening of bids.
5. Award shall be made to the bidder timely submitting the bid evaluated as the highest net present value for the parcel. In evaluating awards, bids made on the parcel as a developed-land housing site shall be compared to bids made on the parcel as undeveloped land housing site by deducting the estimated cost

of on-site infrastructure (the improvements proposed to be completed under the Sub-project) from the amount of any bid for a developed-land housing site, and award shall be made to the highest bid for the parcel (net of improvements).

6. There will be a reserve price for each parcel (net of infrastructure) representing the estimated value of any off-site infrastructure apportioned to the site, plus an imputed intrinsic fair market value of the land, both to be determined in accordance with a methodology for valuation acceptable to the Bank.

7. Purchasers shall be eligible private entities (as defined in Section 1.02 (ac) of this Agreement). Bidders may be pre-qualified in accordance with criteria and procedures acceptable to the Bank.

8. The winning bidder shall be required to pay an appropriate portion of the price on being awarded the offered site, and upon such payment and satisfaction of other conditions established by the Participating City in accordance with its procedures and as disclosed in the invitation to bid, a contract shall be concluded between the Participating City and the Private Developer obliging the Participating City to grant the parcel to the Private Developer for purposes of development in accordance with the terms on which the bid was made.

SCHEDULE 7

Housing Project Credit Facilities General Arrangements for On-Lending

Section I. Loan Policy Review Committee (LPRC)

1. The IMC shall establish a working group (the Loan Policy Review Committee (LPRC)), having a composition and vested with subject-matter competence satisfactory to the Bank, to be responsible for the review of applications submitted in respect of Sub-loans (other than free-limit Sub-loans) proposed to be made by Participating Banks out of the proceeds of a Housing Project Credit Facility under the Project, and other matters satisfactory to the Bank.

Section II. Eligibility Criteria and Procedures for the Selection of Participating Banks

1. A Subsidiary Loan Agreement may be entered into with a financial institution, duly established and operating under the laws of the Borrower, in regard to which the Borrower shall have determined, and the Bank shall have agreed, that such financial institution:

(a) qualifies under the FIDP, having accepted all conditions for participation therein;

(b) has been accepted for participation in the Project in accordance with the provisions of paragraph (a) of Section 3.03 of this Agreement; and

(c) conforms to the Accreditation Criteria.

Section III. Terms and Conditions of Subsidiary Loan Agreements

The following are the principal terms and conditions of Subsidiary Loan Agreements which shall apply for the purposes of paragraph (b) of Section 3.03 of this Agreement:

Part A: Terms

1. Principal Amount:

The amounts to be made available to a Participating Bank

under its respective Subsidiary Loan Agreement shall be the aggregate equivalent, in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account), of the value of the currency or currencies so withdrawn or paid on account of payments made (or to be made) by Sub-borrowers for eligible expenditures required in connection with the carrying out of any Sub-projects corresponding to Sub-loans made by such Participating Bank under the respective Housing Project Credit Facility; provided, however, that the amount to be made available shall not exceed the value of the total share capital of such Participating Bank.

The amount of the Subsidiary Loan shall be denominated, and be repayable, in dollars.

2. Interest Rate:

The Participating Bank shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time, at a floating rate up to two and one-half percent (2-1/2%) above the interest rate determined in accordance with the provisions of Section 2.05 of this Agreement.

3. Maturity:

The Participating Bank shall repay on the maturity dates set forth in the Subsidiary Loan Agreement in accordance with an amortization schedule as shall be determined by the Borrower up to a period of twelve (12) years, including a grace period of two (2) years.

4. Commitment and Other Charges:

The Participating Bank shall be required to pay:

(a) a front-end fee of \$25,000, due upon signing the Subsidiary Loan Agreement and creditable towards interest accrued under the Subsidiary Loan; and

(b) a commitment charge on the amount of any Housing Project Credit Line not withdrawn from time to time, of thirty-three hundredths of one percent (0.33 of 1%) per annum.

5. Premiums on Prepayment:

The Participating Bank shall have the right to repay, in advance of maturity, any portion of the principal amount of a Subsidiary Loan, subject to a prepayment premium of one-eighth of one percent (1/8 of 1%) of any amount so repaid.

Part B: Conditions

1. Each Subsidiary Loan Agreement shall contain provisions pursuant to which the respective Participating Bank shall undertake to:

(a) carry out its activities under the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers and to provide, promptly as needed, the funds, facilities, services and other resources required for the purposes;

(b) adhere to all standards of general application which may have been established for purposes of determining the continuing eligibility of the Participating Banks for participation in the particular Housing Project Credit Facility in respect of which the Participating Bank shall be participating, which shall include, without limitation, the accreditation criteria set forth in the Annex to Schedule 7 to the ESP Loan Agreement (the Accreditation Criteria);

(c) (i) make Sub-loans to Sub-borrowers on the terms and conditions set forth in Annexes 1 and 2 to this Schedule (as applicable to the particular Housing Project Credit Facility in respect of which the Participating Bank shall be participating); (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Sub-borrowers of Sub-projects, in accordance with procedures satisfactory to the Bank and the Borrower;

(d) in respect of repayments made to it under its respective Sub-loans: (i) open, by the date on which it shall receive the first repayment of principal under any such Sub-loan, and thereafter maintain, a separate account on its books; (ii) upon receipt of each such repayment, credit the same to the said separate account; and (iii) utilize all amounts so credited, to the extent they are not yet required to meet its repayment obligations to the Borrower under the Subsidiary Loan Agreement, exclusively to finance Qualifying Private Housing Developments and Qualifying Building Materials Industry Investments and (if such bank is also a Participating Financial Intermediary for purposes of the Enterprise Support Project) Qualifying Investments (as defined in Section 1.02 (e) of the ESP Loan Agreement) on terms and conditions similar to those applicable to the Sub-loans so repaid and credited to the same separate account, provided, however, that utilization of such amounts for such Qualifying Investments shall be permitted only after two years from the date the first such Sub-loan was made by such Participating Bank;

(e) maintain, with staff and other resources and terms of reference, satisfactory to the Bank and the Borrower: (i) a credit board to be responsible for the evaluation and approval of Sub-loan applications; and (ii) a technical unit to be responsible for the appraisal and supervision of the carrying out of Sub-projects, such technical unit to use the services of qualified engineers for inspection of works and certification of progress in connection with requirements for authorization of payments to contractors;

(f) (i) exchange views with, and furnish all such information to the Bank or the Borrower, as may be reasonably requested by the Bank or the Borrower, with regard to the progress of its activities under the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Project; and (ii) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement; and

(g) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Bank and the Borrower, as soon as available, but in any case not later than three months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank or the Borrower shall have reasonably requested; and (iv) furnish to the Bank or the Borrower such other information concerning

said records, accounts and financial statements, as well as the audit thereof, as the Bank or the Borrower shall from time to time reasonably request.

2. The right of a Participating Bank to draw upon any of its Housing Project Credit Lines shall be subject to: (a) suspension upon failure of such Participating Bank to perform any of its obligations under its corresponding Subsidiary Loan Agreement or to continue to be in compliance with the Accreditation Criteria referred to in paragraph 1 (b) of this Part B of this Section III of this Schedule 7 and with all legal and regulatory requirements applicable to its operations; and (b) termination if such right shall have been suspended pursuant to subparagraph (a) hereof for a period of 60 days.

3. Each Subsidiary Loan Agreement shall be subject to a condition of effectiveness, providing for the submission of a certified copy of such Subsidiary Loan Agreement to the Bank, together with evidence satisfactory to the Bank that: (a) such Subsidiary Loan Agreement has been duly executed, delivered and authorized or ratified by all necessary governmental and corporate action of the CPIU, Minfin and the Participating Bank concerned; and (b) that the Subsidiary Loan Agreement is legally valid and binding on the Borrower and such Participating Bank in accordance with its terms.

ANNEX 1 TO SCHEDULE 7

Eligibility, Approval Procedures and Principal Terms and Conditions of Housing Construction Sub-loans

Section I. Eligibility and Approval Procedures

1. No expenditures for a Private Housing Development Sub-project shall be eligible for financing out of the proceeds of the Private Housing Construction Credit Facility established pursuant to Part A.2 of the Project:

(a) unless the Sub-loan for such Sub-project:

- (i) shall have been approved by the Bank, and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 2 (a) of this Section in respect of such Sub-loan; or
- (ii) shall be a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account, and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (c) of this Section in respect of such free-limit Sub-loan;

(b) to finance any Sub-project which is a Private Housing Development Sub-project in any city or territory unless the conditions referred to in paragraph 2 (b) of this Section have been met in respect of such city or territory;

(c) to finance the acquisition of any interest in land; or

(d) to refinance any existing obligations of the Sub-borrower.

2. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Participating Bank making the Sub-loan shall furnish to the Bank, through the CPIU, an application, in form satisfactory to the Bank, together with: (i) a description of the Sub-borrower; (ii) an

appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) such other information as the Bank shall reasonably request.

(b) Any Sub-loan proposed to be made for the financing of a Private Housing Development Sub-project shall be eligible for financing out of the proceeds of the Private Housing Construction Credit Facility established pursuant to Part A.2 of the Project only: (i) in a Participating City or a Qualifying Regional Land Development Area; and (ii) upon selection, appraisal and credit application processing of the proposed Sub-project in accordance with such specific criteria (including criteria for Qualifying Private Housing Developments) and procedures applicable to such Sub-projects, as shall have been promulgated by IMC for such purposes, satisfactory to the Bank. For purposes of this paragraph, "Qualifying Regional Land Development Area" shall mean an area within the territory embraced by the Regulatory Action Plan of a Participating City adopted in accordance with the provisions of sub-paragraph 2 (a) of Section I of Schedule 6 to this Agreement, or outside such territory in an area defined by the Participating Oblast, but not greater than 15 kilometers from the center of any such Participating City, provided, however, that if the parcel with respect to which the Sub-project is concerned is located outside an area comprehended by the Regulatory Action Plan of a Participating City, then the relevant Participating Oblast or other governmental entity having jurisdiction thereto shall have adopted such measures as shall be substantially equivalent to the measures contained in the Regulatory Action Plans of the Participating Cities, so as to provide, in the opinion of the Bank, protection adequate to ensure an appropriate regulatory environment for the carrying out of such Private Housing Development Sub-project.

(c) Each request by a Participating Bank for authorization to draw upon its Housing Project Credit Line in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Sub-borrower and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(d) Applications and requests made pursuant to the provisions of paragraphs 2 (a), (b) and (c) of this Section shall be presented to the Bank not later than December 31, 1999.

3. Sub-loans shall be made to Sub-borrowers who each shall have established to the satisfaction of the Participating Bank making the Sub-loan that: (i) it is a Private Developer; and (ii) it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Private Housing Development Sub-project.

4. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines promulgated by IMC satisfactory to the Bank, to be:

(a) technically feasible and economically, financially and commercially viable;

(b) designed with appropriate health and safety standards; and

(c) in compliance with all requirements pertaining to environmental protection applicable under the laws and

regulations of the Borrower.

Section II. Terms and Conditions of Housing Construction Sub-Loans

The provisions of this Section shall apply for the purposes of sub-paragraph 1 (c) (i) of Part B of Section III of Schedule 7 to this Agreement.

1. The principal amount of each Sub-loan shall: (a) be denominated and be the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of goods or services financed out of the proceeds of the Sub-loan for the Sub-project; and (b) not exceed the equivalent of ten million dollars (\$10,000,000), unless otherwise agreed by the Bank.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at such a rate as may be determined by the Participating Bank making such Sub-loan on the basis of its assessment of market conditions and risk management; and (b) made for a period, as determined by such Participating Bank in accordance with prevailing commercial practices, which shall be for a maximum of four (4) years, inclusive of a maximum grace period of two (2) years.

3. Sub-loans shall be made on terms whereby the Participating Bank shall obtain, by written contract with the Sub-borrower or by other appropriate legal means, rights adequate to protect its interests and those of the Bank and the Borrower, including the right to:

(a) require the Sub-borrower to carry out the Private Housing Development Sub-project with due diligence and efficiency and in accordance with sound technical, financial, engineering and construction industry standards and to maintain adequate records;

(b) require: (i) that the goods, works and consultants' services to be financed out of the proceeds of the Housing Construction Sub-loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) that such goods and services shall be used exclusively in the carrying out of the Private Housing Development Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank or the CPIU if the Bank or the CPIU shall so request, the goods and the sites, works, plants and construction included in the Private Housing Development Sub-project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Sub-borrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-

borrower and to the benefits to be derived from the Private Housing Development Sub-project; and

(f) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Sub-loan upon failure by such Sub-borrower to perform its obligations under its contract with the Participating Bank.

ANNEX 2 TO SCHEDULE 7

Eligibility, Approval Procedures and Principal Terms and Conditions of Building Materials Industrial Development Sub-loans

Section I. Eligibility and Approval Procedures

1. No expenditures for a Building Materials Sub-project shall be eligible for financing out of the proceeds of the Building Materials Industrial Development Credit Facility established pursuant to Part B of the Project:

(a) unless the Sub-loan for such Sub-project:

(i) shall have been approved by the Bank, and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 2 (a) of this Section in respect of such Sub-loan; or

(ii) shall be a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account, and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (c) of this Section in respect of such free-limit Sub-loan;

(b) to finance the acquisition of any interest in land; or

(c) to refinance any existing obligations of the Sub-borrower.

2. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Participating Bank making the Sub-loan shall furnish to the Bank, through the CPIU, an application, in form satisfactory to the Bank, together with: (i) a description of the Sub-borrower; (ii) an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-loan; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) such other information as the Bank shall reasonably request.

(b) Any Sub-loan proposed to be made for the financing of a Building Materials Sub-project shall be eligible for financing out of the proceeds of the Building Materials Industrial Development Credit Facility established pursuant to Part B of the Project only upon appraisal and processing of such proposed Sub-project in accordance with such specific criteria (including criteria for Qualifying Building Materials Industry Investments referred to in paragraph 3 of Section I of Schedule 9 to this Agreement) and procedures applicable to such Sub-projects, as shall have been promulgated by the IMC for such purposes, provided that such criteria and procedures are acceptable to the Bank.

(c) Each request by a Participating Bank for authorization to draw upon its Housing Project Credit Line in respect of a free-limit Sub-loan shall contain: (i) a summary description of

the Sub-borrower and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(d) Applications and requests made pursuant to the provisions of paragraphs 2 (a), (b) and (c) of this Section shall be presented to the Bank not later than December 31, 1999.

3. Sub-loans shall be made to Sub-borrowers who each shall have established to the satisfaction of the Participating Bank making the Sub-loan that: (i) it is an Eligible Building Materials Industry Enterprise having a qualifying equity investment of an Eligible Building Materials Industry Investment Partner; and (ii) it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Building Materials Sub-project.

4. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines promulgated by IMC satisfactory to the Bank, to be:

(a) technically feasible and economically, financially and commercially viable;

(b) designed with appropriate health and safety standards; and

(c) in compliance with all requirements pertaining to environmental protection applicable under the laws and regulations of the Borrower.

Section II. Terms and Conditions of Building Materials Industrial Development Sub-Loans

The provisions of this Section shall apply for the purposes of sub-paragraph 1 (c) (i) of Part B of Section III of Schedule 7 to this Agreement.

1. The principal amount of each Sub-loan shall: (a) be denominated and be the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of goods or services financed out of the proceeds of the Sub-loan for the Sub-project; and (b) not exceed the equivalent of ten million dollars (\$10,000,000), unless otherwise agreed by the Bank.

2. Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at such a rate as may be determined by the Participating Bank making such Sub-loan on the basis of its assessment of market conditions and risk management; and (b) made for a period, as determined by such Participating Bank in accordance with prevailing commercial practices, which shall be for a minimum of two (2) years and a maximum of eight (8) years, inclusive of a maximum grace period of two (2) years.

3. Sub-loans shall be made on terms whereby the Participating Bank shall obtain, by written contract with the Sub-borrower or by other appropriate legal means, rights adequate to protect its interests and those of the Bank and the Borrower, including the right to:

(a) require the Sub-borrower to carry out the Building Materials Sub-project with due diligence and efficiency and in accordance with sound technical, financial, engineering and

building materials industry standards and to maintain adequate records;

(b) require: (i) that the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of the Attachment to this Annex; and (ii) that such goods and services shall be used exclusively in the carrying out of the Building Materials Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank or the CPIU if the Bank or the CPIU shall so request, the goods and the sites, works, plants and construction included in the Building Materials Sub-project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Sub-borrower shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Building Materials Sub-project; and

(f) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Sub-loan upon failure by such Sub-borrower to perform its obligations under its contract with the Participating Bank.

4. Sub-loans shall be secured by liens on mortgages on the specific assets of the Sub-borrower which are to be financed under the Sub-loan and a first charge on all other assets of the Sub-borrower covering at least 150% of the Sub-loan.

ATTACHMENT TO ANNEX 2 TO SCHEDULE 7

Procurement and Consultants' Services under Building Materials Industrial Development Sub-loans

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods and works 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), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part C.1 of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period if the period of

extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

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

Part B: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost less than the equivalent of \$4,000,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations 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 for goods estimated to cost less than the equivalent of \$250,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part C: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$4,000,000 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 5 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.

SCHEDULE 8

Modifications to the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

1. The last sentence of Section 3.02 is deleted.

2. 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."

3. The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the dates specified in sub-paragraph (c) of paragraph 3 of Section II of Schedule 6 to the Loan Agreement, or sub-paragraph (d) of paragraph 2 of Section I of Annex 1 to Schedule 7 to the Loan Agreement, or sub-paragraph (d) of paragraph 2 of Section I of Annex 2 to Schedule 7 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) or (b) of said paragraph 3 of Section II of Schedule 6, or under sub-paragraphs (a) and (c) of said paragraph 2 of Section I of Annex 1 to Schedule 7, or under sub-paragraphs (a) and (c) of said paragraph 2 of Section I of Annex 2; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled."

SCHEDULE 9

Implementation Program for Building Materials Industrial Development Program

Section I. Eligibility Criteria

1. Building Materials Industry Enterprises

The eligibility of Building Materials Industry Enterprises shall be determined in accordance with guidelines promulgated by IMC, such guidelines to be acceptable to the Bank.

2. Building Materials Industry Investment Partners

The eligibility of Building Materials Industry Investment Partners, and the criteria relating to eligibility of their equity investments, shall be determined in accordance with guidelines promulgated by the IMC, such guidelines to be acceptable to the Bank.

3. Qualifying Building Materials Industry Investments

Appraisal of Sub-loans for building materials industry investments shall be in accordance with guidelines promulgated by the IMC for such purposes, such guidelines to be acceptable to the Bank.

Section II. Selection Procedures for Building Materials Sub-projects

The Borrower shall apply procedures for the selection of Building Materials Sub-projects satisfactory to the Bank and shall cause the Participating Banks to submit their applications for Sub-projects proposed to be financed under the Building Materials Industrial Development Credit Facility in

conformity with such procedures.

