

CONFORMED COPY

LOAN NUMBER 4057 UA

Loan Agreement

(Enterprise Development Adjustment Loan)

between

UKRAINE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 27, 1996

LOAN NUMBER 4057 UA

LOAN AGREEMENT

AGREEMENT, dated June 27, 1996, between UKRAINE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 29, 1996, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the enterprise sector in the economy of the Borrower (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program; and

(B) the Borrower, having committed itself to the execution of the Program, and pursuant to the building of an institutional base in support therefor, having undertaken to carry out the Project described in Schedule 4 to this Agreement, has requested the Bank to support the Program during the execution thereof and to assist in the financing of the Project; and

WHEREAS on the basis, inter alia, of the foregoing, the Bank has decided to provide such assistance 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 thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, is modified to read:

"'Project' means the technical assistance project described in Schedule 4 to the Loan Agreement."

(b) In Section 2.01, a new paragraph 21 is added to read:

"'Program' means the program referred to in the Preamble to the Loan Agreement."

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

(d) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account: (a) in respect of Portion A of the Loan shall be made in the respective currencies in which the expenditures to be financed out of the proceeds of Portion A of the Loan have been paid or are payable; provided, however, that withdrawals in respect of expenditures in the currency of the member of the Bank which is the Borrower or the Guarantor shall be made in such currency or currencies as the Bank shall from time to time reasonably select; and (b) in respect of Portion B of the Loan shall be made in the currency of the deposit account specified in Section 2.03 (b) of the Loan Agreement."

(e) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw from the Loan Account the proceeds of the Loan in accordance with the provisions of the Loan Agreement and of these General Conditions. Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) 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."

(g) Section 9.07 (c) shall be modified to read:

"(c) 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, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program and the Project, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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) "Artificial monopolies" means the industries described in Resolution No. 135 of the Cabinet of Ministers of February 22, 1995, and the order No. 59/3/N of the Ministry of Economy and Anti-Monopoly Committee of the Borrower of May 13, 1996;

(b) "Cabinet of Ministers" means the Cabinet of Ministers of the Borrower;

(c) "Deposit Account" means the account referred to in paragraph (b) of Section 2.03 of this Agreement;

(d) "DSS" means the depository system for securities intended to be established by the Borrower in the course of the implementation of the Program, pursuant to its policies regarding development of the capital market, as described in the letter referred to in Recital (A) in the Preamble to this Agreement;

(e) "Medium/large-scale enterprises" shall have the meanings as given to such terms in the Borrower's State Program of Privatization for 1992-1993;

(f) "PIU" means the project implementation unit maintained pursuant to the provisions of paragraph 1 of Schedule 6 to this Agreement;

(g) "Special Export Regime" means the special export regime referred to in Decree No. 16/92 of the Cabinet of Ministers of the Borrower dated December 26, 1992;

(h) "SPF" means the State Property Fund of the Borrower, or any successor thereto; and

(i) "UCPPS" means the Ukrainian Center for Post-Privatization Support, an entity created February 24, 1995, in compliance with the legislation of Ukraine.

ARTICLE II

The Loan

Section 2.01. (a) 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 three hundred ten million Dollars (\$310,000,000), 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.

(b) Without limitation upon the provision of paragraph (a) hereof, the Loan shall consist of portion A (Portion A) in the amount of ten million Dollars (\$10,000,000) equivalent and portion B (Portion B) in the amount of three hundred million Dollars (\$300,000,000) equivalent.

Section 2.02. (a) The proceeds of Portion A may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 4 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a 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 8 to this Agreement.

Section 2.03. For purposes of Portion B:

(a) Subject to the provisions of sub-paragraphs (b) and (c) of this Section and Schedule 1 to this Agreement, the Borrower shall be

entitled to withdraw the proceeds of Portion B from the Loan Account in support of the Program.

(b) the Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account (Deposit Account) in Dollars, on terms and conditions satisfactory to the Bank. All the proceeds of Portion B from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of Portion B shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 2 to this Agreement. If at any time the Bank shall have determined, based on evidence satisfactory to the Bank, and after an exchange of views with the Borrower, that any proceeds of Portion B shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

Section 2.04. The Closing Date shall be December 31, 1999, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

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

(c) For the purposes of this Section:

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

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

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

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of

1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

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

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

Section 2.07. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

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

Section 2.09. Notwithstanding the provisions of Section 6.01 of this Agreement, the Chairman of the State Property Fund is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions, in respect of Portion A of the Loan.

ARTICLE III

Particular Covenants

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 4 to this Agreement and, to this end, shall carry out the Project through the SPF and the UCPPS with due diligence and efficiency and in conformity with appropriate administrative, financial and economic practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project, and to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 5 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

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

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditures,

the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures 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 3.04. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 7 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 7 to this Agreement.

Section 3.05. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account referred to in paragraph (b) of Section 2.03 of this Agreement audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six (6) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning said Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this

Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
12/2 Hrushevsky St.
Kyiv, Ukraine 252008

Telex:
131450

For the Bank:

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

Cable address:	Telex:
INTBAFRAD	248423 (RCA)
Washington, D.C.	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.

UKRAINE

By /s/ Yuriy Shcherbak
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil G. Kavalsky
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the allocation of the proceeds of the Loan to the Project and the Program by categories corresponding to

Portions A and B of the Loan and, in respect of the Project, establishes subcategories of items required for the execution of the Project, together with the percentage of expenditures for such items in each such subcategory to be financed out of the proceeds of Portion A.

Category	Amount of the Loan Allocated (Expressed in Dollars Equivalent)	% of Expenditures to be Financed
(1) Expenditures for the Project to be financed out of the proceeds of Portion A of the Loan		
(a) Goods	1,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(b) Consultants' Services	9,000,000	100%
(2) Portion B of the Loan	300,000,000	
	<hr/>	
TOTAL	310,000,000 =====	

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; and

(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.

3. (a) Notwithstanding the provisions of paragraph 1 above, no withdrawal shall be made in respect of payments made for expenditures under Category (1) prior to the date of this Agreement.

(b) The Bank may require withdrawals of the proceeds of the Portion A (Category (1) of the table set forth in paragraph 1 of this Schedule) to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts referred to in paragraph 2 of Part C of Section I of Schedule 5 to this Agreement, estimated to cost the equivalent of \$300,000 or less; and (b) consulting services under contracts not exceeding \$100,000 equivalent for consulting firms, and \$50,000 equivalent for individual consultants, under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. (a) No withdrawal shall be made in respect of Category (2) after the aggregate amount withdrawn thereunder shall have reached the equivalent of one hundred million Dollars (\$100,000,000), unless the Bank shall be satisfied, after an exchange of views as described in Section 3.04 of this Agreement, based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in Section I of Schedule 7 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of Portion B of the Loan or any part thereof.

(b) No withdrawal shall be made in respect of Category (2) after the aggregate amount withdrawn thereunder shall have reached the equivalent of two hundred million Dollars (\$200,000,000), unless the Bank shall be satisfied, after an exchange of views as described in Section 3.04 of this Agreement, based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in Section II of Schedule 7 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of Portion B of the Loan or any part thereof.

SCHEDULE 2

Excluded Expenditures

For purposes of Section 2.03 (c) of this Agreement, the proceeds of Portion B shall not be used to finance the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance, or which the Bank shall have financed or agreed to finance under another loan;
3. expenditures for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	--	Alcoholic beverages
121	--	Tobacco, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
718	718.70	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.30	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	--	Gold, non-monetary (excluding gold ores and concentrates)
4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of

the Borrower or international agreements to which the Borrower is a party); and

6. in furtherance of the purposes of Section 5.01 of the General Conditions, expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)
February 15, 2001	7,515,000
August 15, 2001	7,775,000
February 15, 2002	8,050,000
August 15, 2002	8,330,000
February 15, 2003	8,620,000
August 15, 2003	8,920,000
February 15, 2004	9,230,000
August 15, 2004	9,555,000
February 15, 2005	9,885,000
August 15, 2005	10,230,000
February 15, 2006	10,590,000
August 15, 2006	10,960,000
February 15, 2007	11,340,000
August 15, 2007	11,735,000
February 15, 2008	12,145,000
August 15, 2008	12,570,000
February 15, 2009	13,010,000
August 15, 2009	13,465,000
February 15, 2010	13,935,000
August 15, 2010	14,240,000
February 15, 2011	14,925,000
August 15, 2011	15,445,000
February 15, 2012	15,980,000
August 15, 2012	16,540,000
February 15, 2013	17,115,000
August 15, 2013	17,715,000

* 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	0.35

not more than six years before maturity	
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

Description of the Project

The objective of the Project is to strengthen the Borrower's institutional capacity to implement the measures under the Program.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree from time to time to achieve such objective:

Part A: Enterprise Restructuring

Provision of technical assistance to support the development of enterprise restructuring demonstration cases and to prepare case studies for management training.

Part B: Critical Financial and Management Services

Provision of technical assistance and goods to support the development of a market-based financial and management services industry capable of carrying out critical functions necessary in a market economy, including professional associations, commercially oriented business databases on private enterprises, and management training programs based on Ukrainian case studies.

Part C: Project Administration

Provision of technical assistance and goods to strengthen government organizations for privatization and post privatization support, including SPF and UCPPS.

* * *

The Project is to be completed by December 31, 1998.

SCHEDULE 5

Procurement and Consultants' Services

Section I. Procurement of Goods for the Project

Part A: General

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

Part B: Procurement Procedures

1. International Shopping

Except as otherwise provided in paragraph 2 of this Part B, goods may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to the first two contracts to be awarded under procedures described in paragraphs 1 and 2 of Part B of Section I of this Schedule, and any contract estimated to cost the equivalent of \$300,000 or more, the Borrower shall furnish to the Bank each such contract before the execution thereof. Any modification to any such contract shall be subject to the procedures set forth in paragraph 3 of Appendix 1 to the Guidelines.

2. Post Review

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

Section II. Employment of Consultants for the Project

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants 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 6

Technical Assistance Project:
Implementation Program

1. Project Implementation Unit

For purposes of facilitating the implementation of the Project, the Borrower shall maintain the project implementation unit (PIU) within SPF with staff, resources and terms of reference acceptable to the Bank.

2. Monitoring and Evaluation

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators

satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about October 15, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 1, 1997 or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 7

Actions Referred to in Paragraph 4 of Schedule 1 to This Agreement

Section I. Actions to Be Implemented Pursuant to Paragraph 4 (a) of Schedule 1 to This Agreement

1. Liberalization of the Trade and Price Regime

The Borrower has taken the following steps to establish and maintain a properly competitive environment:

- (a) elimination of all export duties;
- (b) removal of indicative prices on all exports with the exception of those covered by voluntary export restraints, anti-dumping investigations, and international contingent agreements;
- (c) rescission of the Special Export Regime;
- (d) elimination of all registration requirements for exports, with the exception of exports under voluntary export restraints, international contingent agreements, and anti-dumping investigations;
- (e) elimination of existing requirements concerning quality certification for foreign-produced goods as applied at the import level, and replacement thereof by a nondiscriminatory system of random checks at wholesale or retail levels;
- (f) elimination of all domestic price controls on artificial monopolies, caps on trade mark-ups and profit margins on the corresponding goods; and
- (g) issuance of normative acts limiting price regulation to a specific list of goods and services, and limitation of the functions of the State Price Inspection for Control of Prices to monitoring only those goods and services on said list.

2. Privatization

- (a) In the period starting with January 1, 1995, the Borrower has privatized at least 3,500 medium/large-scale state owned enterprises, by divesting at least seventy percent (70%) of the equity of such enterprises. Of such privatized enterprises, at least thirty percent (30%) shall be enterprises that as of January 1, 1995, were classified by the Cabinet of Ministers as part of the agro-industrial complex.
- (b) The Borrower has implemented a methodology for privatization of agro-industrial enterprises which: (i) has shortened the periods for the corporatization and share subscription processes to a period approximating the corresponding periods achieved for analogous enterprises in other sectors; and (ii) ensures that shares in these enterprises subject to transfer on preferential terms to primary producers of

agricultural raw materials, shall be transferred to physical persons and not to any collective structures.

3. Development of the Capital Markets

The Borrower has taken steps to facilitate the further development of the capital markets by:

(a) ensuring the unobstructed transfer of existing registries of shareholders to private and independent registrars, to the extent that the development of the system of private independent registrars described in the letter referred to in paragraph A of the Preamble to this Agreement may so permit. For purposes of this provision, a registrar shall be considered "private and independent" when neither the Government nor any issuer controls more than 20 percent of the registrar's equity each;

(b) adoption of the enactments governing the operation of the capital markets, described in the letter referred to in Recital (A) in the Preamble to this Agreement; and

(c) adoption by the Cabinet of Ministers of a time schedule for establishing the depository system for securities (DSS, as defined in paragraph (d) of Section 1.02 of this Agreement).

Section II. Actions to Be Implemented Pursuant to Paragraph 4 (b) of Schedule 1 to This Agreement

1. Privatization

(a) In the period starting with January 1, 1995, the Borrower has privatized at least 5,000 medium/large-scale state owned enterprises, by divesting at least seventy percent (70%) of the equity of such enterprises. Of such privatized enterprises, at least thirty-five percent (35%) shall be enterprises that as of January 1, 1995, were classified by the Cabinet of Ministers as part of the agro-industrial complex.

(b) The Cabinet of Ministers has approved a list of at least 10 large monopoly enterprises and has initiated work on the development of plans to privatize such enterprises.

2. Capital Markets

(a) The Borrower has adopted enactments requiring compulsory membership of market participants (intermediaries, brokers, dealers, registrars, and depositories) in self-regulating organizations (SROs).

(b) The DSS has started operations.
SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of Portion A allocated to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the 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 eligible Category, 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 3.03 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

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

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of Portion A allocated to the eligible Category 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.

