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**LOAN NUMBER 4698 -UA**

# **Loan Agreement**

**(First State Tax Service Modernization Project)**

**between**

**UKRAINE**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 4, 2003**

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**LOAN AGREEMENT**

AGREEMENT, dated September 4, 2003, between UKRAINE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated November 6, 2002 from the Borrower describing a program of actions, objectives and policies designed to support a long-term and comprehensive upgrading of the country's State Tax Service ("STS" as hereinafter further defined in paragraph (I) of Section 1.02 of this Agreement) and development of a viable state tax collection system, including: (i) voluntary adherence to the tax legislation of the Borrower by taxpayers; (ii) competent, honest, and just administration of taxes by the STS; and (iii) dynamic economic development of the entrepreneurial sector (the Program), and declaring the Borrower's commitment to the execution of the said Program;

(B) the Borrower has requested the Bank's support in the execution of the Program through a series of two (2) loans over a period of approximately ten (10) years to be utilized by the Borrower for implementing the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the first phase of the Program described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions) with the following modification to paragraph (c) of Section 9.07 thereof constitute an integral part of this Agreement:

"(c) Not later than six months before 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 and initial operation of the Project, its cost and the benefits derived and to be derived from it, 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) "Category" means a category of items to be financed out of the proceeds of the Loan as set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and the term "Categories" means more than one (1) Category collectively;

(b) "Eligible Expenditures" means the expenditures for goods and services referred to in Section 2.02 (a) of this Agreement;

(c) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(d) "Development and Modernization Department" means the functional unit within the State Tax Administration ("STA" as hereinafter further defined in paragraph (k) of this Section) established and functioning pursuant to the provisions of the Decree of the Borrower's Cabinet of Ministers No. 1454 dated September 19, 2000, as amended from time to time;

(e) "Monitoring and Evaluation Indicators" means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(f) "Operations Manual" means the manual developed by the STA and adopted by its Order No. 47 the dated January 31, 2003, setting forth the procedures and responsibilities to be utilized by the STA in the oversight, administration and technical management of the Project, as the same may be amended from time to time in accordance with the provisions of paragraph 2 of Section II of Schedule 5 to this Agreement;

(g) "Oversight Panel" means the high-level independent panel to be established by the Borrower for the purposes of the Project in accordance with the provisions of paragraph 2 of Section I of Schedule 5 to this Agreement;

(h) "Project Preparation Advance" means the Project Preparation Advance No. P3850-UA granted by the Bank to the Borrower pursuant to the Letter Agreement

signed on behalf of the Bank on June 28, 2001 and on behalf of the Borrower on November 21, 2001;

(i) "Public Collegium" means the consultative assembly established by the Order No. 216 of the STA dated May 10, 2002, and referred to in paragraph 3 of Section I of Schedule 5 to this Agreement;

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

(k) "State Tax Administration" and "STA" mean the Borrower's specialized executive agency established and functioning pursuant to the provisions of the Borrower's Presidential Decree No. 760/96, dated August 22, 1996, regarding "On Setting Up of the State Tax Administration of Ukraine and the Local State Tax Administrations" and Presidential Decree No. 886/2000, dated July 13, 2000, regarding "On Adoption of the Statute of the State Tax Administration", and the Borrower's Law No. 509-XII, dated December 4, 1990, regarding "On State Tax Service in Ukraine", as amended from time to time; and

(l) "State Tax Service" and "STS" mean the institutional structure set up under Article 1 of the Borrower's Law No. 509-XII, dated December 4, 1990, regarding "On State Tax Service in Ukraine", as amended from time to time, and consisting of: (i) the State Tax Administration and the state tax administrations in the Autonomous Republic of Crimea, regions (*Oblasts*), and the cities of Kyiv and Sevastopol; and (ii) the state tax inspectorates in the districts, cities (except Kyiv and Sevastopol), and the city districts.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to forty million dollars (\$40,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of: (i) the reasonable cost of goods, technical services and services required for the Project and to be financed out of the proceeds of the Loan; and (ii) the fee referred to in Section 2.04 of this Agreement.

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

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

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

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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

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

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as

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

- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

Section 2.07. Interest and other charges shall be payable semiannually in arrears on 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.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through the STA with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental, financial, fiscal, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

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

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

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

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

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower, through the STA, shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through the STA, shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each Fiscal Year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit,



by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower, through the STA, shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) 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 expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 4 of Section II of Schedule 5 to this Agreement, the Borrower, through the STA, shall prepare and furnish to the Bank a financial monitoring report (FMR), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as of the end of the period covered by said report.

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

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

## **ARTICLE VI**

### **Termination**

Section 6.01. 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 VII**

### **Representative of the Borrower; Addresses**

Section 7.01. 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 7.02. 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, 01008  
Ukraine

Telex:	Facsimile:
131450	(380-44) 293-6256 (380-44) 201-5684

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

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

UKRAINE

By /s/ Mykola Yanovych Azarov  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Luca Barbone  
Director  
Ukraine, Belarus and Moldova  
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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods and Technical Services	17,650,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(2) Consultants' and Training services, including services for audits:		
(a) Foreign consulting firms and individual consultants	5,320,000	100%
(b) Local consulting firms	12,000,000	87%
(c) Local individual consultants	560,000	92%
(3) Study Tours	480,000	100%
(4) Refunding of Project Preparation Advance	2,000,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5) Front-end fee	400,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	<u>1,590,000</u>	
TOTAL	<u>40,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term “foreign consulting firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual consultant” means an individual consultant who is a national of a territory of any country other than that of the Borrower;

(e) the term “local consulting firm” means a consulting firm which is registered or incorporated in the territory of the Borrower; and

(f) the term “Technical Services” means expenditures incurred to finance the cost of reproduction of informational materials and provision of pre-distribution packaging services under Part A.6 of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, under contracts costing less than \$100,000 equivalent each, excluding those referred to in paragraph 2 (b) (i), (ii) and (iii) of Part D of Section I of Schedule 4 to this Agreement; (ii) services of consulting firms and training, under contracts costing less than \$100,000 equivalent each; (iii) services of individual consultants, under contracts costing less than \$50,000 equivalent each, excluding those to be selected on a sole source basis and referred to in paragraph 2 (b) of Part D of Section II of Schedule 4 to this Agreement; and (iv) training under study tours referred to in paragraph 3 of Section II of Schedule 5 to this Agreement, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to establish sound organizational and operational foundations for the STS, including: (i) modernized business process and organizational designs; (ii) a consolidated and function-based structure; (iii) a proven prototype of modernized taxpayer registration, tax accounting, declaration processing, and document management functions; (iv) strengthened capacities in priority areas such as human resource management, senior and middle management, legislative and statistical analysis, audit, collection, and large taxpayer offices; and (v) enhanced public accountability mechanisms.

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

#### Part A: Organization and Management Modernization

##### 1. Strategic Project Management

Carrying out of a program to build the STA's capacity to implement major strategic initiatives as a permanent institutional management function, and which includes the following activities:

##### 1.1. Design, Planning and Testing

Provision of technical assistance, training and equipment to support the implementation of an integrated agenda for the Program, entailing analysis, detailed design and testing activities thereof, and specifically including the development and implementation of: (i) a strategic plan establishing the basic principle, key goals and measurable objectives of the STS and its modernization process; (ii) a high level action plan for the Program; (iii) a functional organization design document; (iv) conceptual and logic data models for the STS's modernized business processes; (v) concept of operations (ConOPS) documents for each of the major management and operational business processes of the STS; (vi) top-level integrated requirements documents (TLIRD) specifying at the highest level the array of initiatives needed to implement the Program; (vii) an integrated systems architecture document; (viii) the detailed, time and resource-bound action plan for the Program; (ix) a legislation and regulator change plan identifying the legal and regulatory changes required to implement the STS's modernized business processes; and (x) the STA's development and testing laboratory for software and modernized procedures.

1.2. Project Management

Provision of technical assistance, training, and equipment and carrying out of premises reconfiguration to support the STS's capacity to manage the Program itself and assure its quality, including the technical and substantive aspects of the Program, the procedural facets of Project administration, the carrying out of annual audits under the Loan and monitoring and evaluation activities, and focusing primarily on the Development and Modernization Department and encompassing, as needed, the provision of training to the staff of the STA and the Development and Modernization Department on general Project management methods and tools and of equipment required to manage and coordinate the activities of STA staff and managers and other public agencies responsible for the successful implementation of the Program.

2. Organizational Consolidation

On the basis of the business process and organizational design developed under Part A.1.1 of the Project, carrying out of a process of organizational consolidation of the STS's structure aimed at: (i) further consolidating its administrative structure into approximately ten (10) sub-regional units and one hundred twenty (120) inter-district (*rayon*) units; (ii) suitably scaling back operations at the local level to the extent technically and politically practical; and (iii) setting the stage for major streamlining of operations at the lowest level during the second phase of the Program, and encompassing the provision of technical assistance, training, study tours, and equipment and carrying out of premises reconfiguration to plan, manage and implement support the restructuring of the STS's management, staff and facilities.

3. Human Resource Management Capacity Building

Carrying out of a program to adequately address the priority-tactical needs of the STA in the area of human resource management so as to enable the STA to address the pressing human resource needs of its large organization and strengthen its training capability, including, as required, the provision of technical assistance and training.

4. Executive and Line Management Capacity Building

Carrying out of a program to adequately address the priority-tactical needs of the STA in the area of executive and middle management capacity building, including, as required, the provision of technical assistance and training to prepare the STA's executive and middle management teams for the reforms to be implemented under the Program, and training of the STA management team in cotemporary management practices.

5. Legislative and Statistical Analysis

Carrying out of a program to adequately address the priority-tactical needs of the STA, the Borrower's Ministry of Finance and Ministry of Economy and Issues of European Integration, the Customs Administration and the Parliament (*Verkovna Rada*) committees in the area of legislative and statistical analysis of tax policy and administration, through the provision, *inter alia*, of technical assistance, training, study tours, equipment and modeling tools to support their capacity building in legislative analysis, regulatory drafting, revenue forecasting and statistical analyses, and to strengthen the STA's ability to move data from the lower levels of the organization upwards the organization in the form of aggregated statistical data.

6. Stakeholder Relations

Carrying out of a program to adequately address needs of the STA in the area of stakeholder relations management, through the provision of technical assistance, training, study tours, communications and informational services to strengthen and extend the STA's interactions with its internal and external stakeholders, so as to facilitate the success of the reforms under the Program and promote a culture of voluntary compliance with taxpayer obligations under the tax legislation.

Part B: Operations Modernization

1. Prototype Core Tax Administration Operations

Carrying out of a program to prototype the functional organizational arrangements and modernized procedures developed under Part A.1.1 of the Project for the core of tax administration operations, including, *inter alia*, taxpayer registration, tax accounting, declaration processing, and document management, specifically through the implementation of a plan to refine and test such functions in a selected region, and comprising:

1.1. Prototype support

Provision of technical assistance and training for the prototype planning, implementation, troubleshooting and evaluation.

1.2. Prototype Implementation

Provision of technical assistance, training, study tours, equipment and vehicles and carrying out of premises reconfiguration for the development of a mixed manual, semi-automated and automated information systems to handle the modernized operational functions of, *inter alia*, taxpayer registration, tax accounting and declaration process, encompassing: (i) business logic development, including, as appropriate, forms revision; (ii) technology platform development, including, *inter alia*, processing, storage,



data and voice communications; (iii) user training, including information technology and operational training; and (iv) technical training for systems staff and responsible managers.

2. Customer Service Call Center

Carrying out of a program to implement a call center for telephone-based taxpayer services in tandem with the internal help desk facilities to be implemented under Part A.1.1 of the Project, including the provision of equipment.

3. Compliance Strengthening

Carrying out of a program to design, plan and supervise the implementation of initiatives to address priority-tactical needs of the STA in the areas of audit and collection functions, including the provision of technical assistance.

4. Large Taxpayer Office Support

Carrying out of a program to design, plan and supervise the implementation of initiatives to strengthen and extend the coverage of the STA's large taxpayers offices, including the provision of technical assistance.

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The Project is expected to be completed by December 31, 2007.

**SCHEDULE 3**

**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in dollars)*</u>
February 15, 2009	1,160,000
August 15, 2009	1,170,000
February 15, 2010	1,185,000
August 15, 2010	1,195,000
February 15, 2011	1,205,000
August 15, 2011	1,215,000
February 15, 2012	1,230,000
August 15, 2012	1,240,000
February 15, 2013	1,250,000
August 15, 2013	1,265,000
February 15, 2014	1,275,000
August 15, 2014	1,285,000
February 15, 2015	1,300,000
August 15, 2015	1,310,000
February 15, 2016	1,325,000
August 15, 2016	1,335,000
February 15, 2017	1,350,000
August 15, 2017	1,360,000
February 15, 2018	1,375,000
August 15, 2018	1,385,000
February 15, 2019	1,400,000
August 15, 2019	1,410,000
February 15, 2020	1,425,000
August 15, 2020	1,440,000
February 15, 2021	1,450,000
August 15, 2021	1,465,000
February 15, 2022	1,480,000
August 15, 2022	1,495,000
February 15, 2023	1,505,000
August 15, 2023	1,515,000

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

## **SCHEDULE 4**

### **Procurement and Consultants' Services**

#### Section I. Procurement of Goods and Technical Services

##### Part A: General

Goods and technical services consisting of reproduction of informational materials and provision of pre-distribution packaging services under Part A.6 of the Project, shall be procured in accordance with: (i) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (ii) the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and technical services consisting of reproduction of informational materials and provision of pre-distribution packaging services under Part A.6 of the Project, shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

The invitation to bid for each contract for goods and technical services estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

##### Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract 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 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.

3. Direct Contracting

Goods which are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract for: (i) goods to be procured in accordance with the procedures referred to in Part B of this Section; and (ii) technical services consisting of: (A) reproduction of informational materials and provision of pre-distribution packaging services under Part A.6 of the Project; and (B) provision of print and electronic media communications services under Part A.6 of the Project, estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two (2) contracts for goods to be procured in accordance with the procedures referred to in paragraph 1 of Part C above, regardless of the cost thereof; (ii) the first two (2) contracts for goods to be procured in accordance with the procedures referred to in paragraph 2 of Part C above, regardless of the cost thereof; and (iii) each contract for goods to be procured in accordance with the procedures referred to in paragraph 3 of Part C above, regardless of the cost thereof, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services and training shall be procured in accordance with: (i) the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and (ii) the following provisions of this Section.

Part B: Quality- and Cost-based Selection

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

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for legislative liaison and training under Parts A.1, A.3, A.4, A.5, B.1, B.3 and B.4 of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for auditing, premises surveying and periodic taxpayer surveys, under, respectively, Parts A.1 and A.2 of the Project, estimated to cost less than \$800,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for specialized training, advisory services, analysis and planning under Parts A.1, A.2, A.3, A.4, A.5, B.1, B.3 and B.4 of the Project, estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services which qualify under any of the criterion set forth in the provisions of paragraph 3.9 of the Guidelines, up to an aggregate amount not to exceed \$400,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for: (i) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (ii) tasks that meet the requirements set forth in paragraph 5.4 of the Consultant Guidelines may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every three (3) months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms and training estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience and the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

## **SCHEDULE 5**

### **Implementation Program**

#### Section I. Institutional Arrangements

##### 1. The Development and Modernization Department

The Development and Modernization Department shall be responsible for administering and coordinating adequate arrangements for the overall implementation of the Project and the Program among the STS's redesigned organizational structure, including aspects related to the carrying out of procurement of goods and the selection and employment of consultants' services, preparation of disbursement applications of Loan proceeds, management and maintenance of Project accounts, and the preparation and submission of the reports referred to in paragraph 4 of Section II of this Schedule. To that end, the Borrower, through the STA, shall maintain the Development and Modernization Department throughout Project implementation under terms of reference satisfactory to the Bank and with sufficient and suitable human, financial and technical resources.

##### 2. Oversight Panel

The Borrower shall establish, not later than March 31, 2004, and thereafter maintain throughout the Program, an Oversight Panel under terms of reference and with resources and a composition satisfactory to the Bank. The said Panel shall consist of an independent high-level panel vested with responsibility for assessing the STS's progress in transforming its relationship to the rest of Borrower's society to one based on voluntary compliance with the tax legislation coupled with a credible capacity to detect and properly resolve noncompliance, and shall comprise a small number of high profile, internationally recognized experts in fiscal administration and public management. The Panel shall meet at least twice every Fiscal Year to carry out such assessment, making its findings public.

##### 3. Public Collegium

The Borrower shall maintain to the satisfaction of the Bank, throughout the Program, the Public Collegium as a consultative assembly of representatives of stakeholder associations in the Borrower's territory, consisting of representatives of Ukrainian nongovernmental organizations concerned with taxes, commerce, and public administration reform. The said Collegium shall meet at least on a semiannual basis and shall provide the STA with a consultative forum for advice and feedback on matters of tax administration.



## Section II. Implementation Arrangements

### 1. Annual Work Program

The Borrower, through the STA, shall: (i) prepare and submit for the Bank's comments and approval, not later than September 30 of each Fiscal Year, a draft annual work program for the following Fiscal Year including, *inter alia*, a detailed description of planned activities for procurement of goods and technical services and selection and employment of consultants' services and sources and uses of funds; and (ii) adopt and carry out the annual work program in the form and substance approved by the Bank.

### 2. Operations Manual

The Borrower, through the STA, shall take all action required to ensure that the Operations Manual is applied and followed at all times in the implementation, monitoring and evaluation of the Project, and, except as the Bank shall otherwise agree, the Borrower shall ensure that the STA do not assign, amend, abrogate or waive the Operations Manual or any provision thereof.

### 3. Training under the Study Tours

For the purposes of the training to be provided by the study tours under Parts A.2, A.3, A.4, A.5, A.6, B.3 and B.4 of the Project, the Borrower, through the STA, shall:

(a) furnish to the Bank for its approval, the content of each such training, including an explanation on how such training is consistent and conducive to the objectives of the Project and whether it offers the best price/quality ratio, as well as the schedule for its implementation;

(b) select the trainees in accordance with a transparent process and criteria satisfactory to the Bank;

(c) not later than December 1 of each year, exchange views with the Bank on the training to be carried out during the following calendar year; and

(d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each training and the benefits to be derived therefrom.

### 4. Progress Reports

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the STA, shall, commencing on April 30, 2004 and thereafter, not later than January 31, April 30, July 31 and October 31 in each calendar year and until Project completion, prepare and furnish to the Bank a progress report, of

such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the Monitoring and Evaluation Indicators, the progress achieved in the implementation of the Project during the preceding quarter of the calendar year.

5. Mid-Term Review

The Borrower, through the STA, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators, the carrying out of the Project and the Program 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 September 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program 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 Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 2005, 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 Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

## **SCHEDULE 6**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means the amount of \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$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 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 respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, 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.

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