

CONFORMED COPY

LOAN NUMBER 4059 RU

Loan Agreement

(Coal Sector Restructuring Implementation Assistance Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 28, 1996

LOAN NUMBER 4059 RU

LOAN AGREEMENT

AGREEMENT, dated June 28, 1996, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Bank has received a letter dated May 22, 1996 from the Borrower describing a program of actions, objectives and policies designed to achieve adjustment of the Borrower's coal sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(C) the Project will be carried out by the Borrower through the Foundation for the Promotion of the Restructuring of the Coal Industry (REFORMUGOL) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to REFORMUGOL the proceeds of the Loan on a non-reimbursable basis as provided in this Agreement; and

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

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 (the General Conditions) constitute an integral part of this Agreement.

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

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

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

#### ARTICLE II

##### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to twenty five million dollars (\$25,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 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 4 to this Agreement.

Section 2.03. 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 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 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) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for 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 2.05, 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 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 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

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

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall act through REFORMUGOL and cause REFORMUGOL to perform in accordance with the provisions of the Project Agreement all the obligations of REFORMUGOL therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable REFORMUGOL to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purpose of the Project, the Borrower shall make available to REFORMUGOL the proceeds of the Loan under an arrangement on a non-reimbursable basis.

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 1 to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09

of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by REFORMUGOL pursuant to Section 2.03 of the Project Agreement.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
- (iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

#### ARTICLE V

##### Remedies of the Bank

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

- (a) REFORMUGOL shall have failed to perform any of its obligations under the Project Agreement;
- (b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that REFORMUGOL will be able to perform its obligations under the Project Agreement;
- (c) the Charter of REFORMUGOL shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of REFORMUGOL to perform any of its obligations under the Project Agreement;

(d) an authority having jurisdiction shall have taken any action for the dissolution or disestablishment of REFORMUGOL or for the suspension of its operations; and

(e) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

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

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur in respect of an obligation so as to affect materially and adversely the execution of the Project and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date, Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the director general of REFORMUGOL has been employed with qualifications and experience acceptable to the Bank.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Project Agreement has been duly authorized or ratified by REFORMUGOL and is legally binding upon REFORMUGOL in accordance with its terms.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance  
Ilyinka Street 9  
103009 Moscow  
Russian Federation

Telex:

112008

For the Bank:

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

Cable address:

Telex:

INTBAFRAD 197688 (TRT),  
Washington, D.C. 248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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

RUSSIAN FEDERATION

By /s/ Yakov Urinson  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang  
Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Computers, office equipment and furniture	600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 83% of local expenditures for other items procured locally
(2) Consultant's services and training	14,420,000	100%
(3) Operating cost of REFORMUGOL	2,980,000	100%
(4) Pilot activities under Part B.3 of the Project	5,000,000	83%
(5) Unallocated	2,000,000	
TOTAL	<u>25,000,000</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; and

(c) The term "operating cost of REFORMUGOL" means expenditures on account of the Project of REFORMUGOL for salaries, utility services, office supplies and rental of premises for a twelve month period following the date of this Agreement as set forth in the budget of REFORMUGOL acceptable to the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for (a) expenditures prior to the date of this Agreement; and (b) expenditures to be financed out of the proceeds of the loan allocated to Category (4) unless the Borrower has submitted to the Bank the criteria applicable to the selection of the activities to be carried out under Part B.3 of the Project and the proposed implementation arrangements, both acceptable to the Bank.

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

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) improve the management of the restructuring process of the coal sector; and (ii) fill critical skill gaps and build capacity in a number of key areas, which are essential to the effective implementation of the Program.

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: Participatory Activities

1. Provision of consultant services, training and computer and office equipment for: (i) the Borrower's efforts to improve industrial relations and social partnership in the coal sector; (ii) the Inter Agency Commission for Socio-Economic Problems of the Coal Mining Regions (IAC) and regional coal commissions; (iii) trade unions; (iv) local governments of coal regions; (v) the Association of Mining Cities; and (vi) independent coal companies and their association.

2. Public relations campaigns to help broaden ownership of reform objectives.

#### Part B: Social Programs

1. Provision of consultant services, training and computer equipment for the improvement of the system for social protection of coal industry employees, social asset operation and maintenance, and design of community support and employment programs in the Kuzbass, Eastern Donbass, Pechora, Moscow and Kisel coal basins.

2. Provision of consultant services, training and computer equipment for the establishment and implementation of a system for continuous social assessment and social impact monitoring in coal mining regions.

3. Implementation of pilot activities of community support and employment programs in the Kuzbass, Eastern Donbass, Pechora, Moscow

and Kisel coal basins.

Part C: Improvement of Subsidy Management

Provision of consultant services, training and computer equipment needed for the development of efficient procedures to allocate and distribute state support to recipients and control its application, development of model agreements between primary and final recipients of state support, improvement of the reporting system concerning targeted use of state support to the coal sector, monitoring of the operation of the mechanisms of state financing for coal sector restructuring and its related impact; and arrangements for independent audits of recipients of state support in accordance with international auditing standards.

Part D: Commercialization and Demonopolization of Coal Companies

Provision of consultant services and training for (i) the preparation of business plans of coal companies, (ii) development of a framework for trust management of mining companies, including preparation of a model agreement, (iii) the bidding process to select the trust managers, (iv) development of measures aimed at attracting investments in the coal sector, and (v) provision of management and financial training.

Part E: Environmental Management

Provision of consultant services and training to strengthen the capacity needed for environmental management, including legal and financial aspects, to remediate the adverse impacts of coal mines included in the restructuring program.

Part F: Mine Closures

Provision of consultant services for legal, organizational and informational support for the development of procedures for closure of unprofitable mines.

Part G: Support to REFORMUGOL

1. Provision of consultant services, training and computer and office equipment to strengthen the capacity of REFORMUGOL.
2. Provision of computer and office equipment to assist in the establishment of about five regional coal commissions of the Borrower.

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)
On each June 15 and December 15	
beginning , December 15, 2001 through December 15, 2012	1,040,000
On June 15, 2013	1,080,000

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

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



this Agreement;

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

(c) the term "Authorized Allocation" means an amount of \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$250,000 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 \$1,000,000.

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 with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

