

CONFORMED COPY

LOAN NUMBER 4427 RU

Loan Agreement

(Second Highway Rehabilitation and Maintenance Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated February 26, 1999

LOAN NUMBER 4427 RU

LOAN AGREEMENT

AGREEMENT, dated February 26, 1999, 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; and

(B) Parts B and C.2 of the Project will be carried out by the Participating Regions (as such term is defined in Section 1.02 of this Agreement) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the Participating Regions a part of the proceeds of the Loan as provided in this Agreement;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (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) "Federal Road Fund" means the fund established pursuant to the Borrower's Law No. 1759-1, dated October 18, 1991, entitled "Road Funds in the Russian Federation", and includes any addenda and amendments thereto;

(b) "Indigenous Peoples" means the ethnic minorities defined as "small indigenous peoples" or "indigenous minorities of the North and Siberia" in the Borrower's Law No. 78-F2, dated June 19, 1996, entitled: "Framework for the Governmental Regulation of the Social and Economic Development of the Russian Federation Northern Region";

(c) "Indigenous Peoples Mitigation Plans" means the plans referred to in paragraph 9 (a) of Schedule 5 to this Agreement;

(d) "Participating Regions" means collectively the following two regions of the Borrower (subjects of the Russian Federation): Krasnoyarsk Krai and Khabarovsk Krai; and "Participating Region" means each and any such region;

(e) "Participating Region PIUs" means collectively project implementation units to be established by each Participating Region pursuant to paragraph 11(b) of Schedule 5 to this Agreement or any successors thereto; and "Participating Region PIU" means each and any such PIU;

(f) "Participating Region Subsidiary Loan Agreements" means collectively the agreements to be entered into between the Borrower and each Participating Region pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Participating Region Subsidiary Loan Agreements; and "Participating Region Subsidiary Loan Agreement" means each and any such agreement, and the term "Subsidiary Loan" means the loan provided to a Participatory Region under a Subsidiary Loan Agreement;

(g) "PIU" means the Project Implementation Unit (Dorinvest), established by RFHA (as hereinafter defined) under the Highway Rehabilitation and Maintenance Project (Loan No. 3706 RU), or any successor thereto;

(h) "Project Account" means the bank account referred to in paragraph 3 of Schedule 5 to this Agreement;

(i) "RFHA" means the Russian Federal Highway Administration, an agency of the Borrower, and includes any successor thereto; and

(j) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to four hundred million Dollars (\$400,000,000).

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, works 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 open and maintain in Dollars separate special deposit accounts: (i) Special Account A -- for the purposes of Parts A and C.1 of the Project; and (ii) Special Accounts B and C for each respective Participating Region -- for the purposes of Parts B and C.2 of the Project; in a bank or banks acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (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) "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 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 2.05, 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 April 15 and October 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: (i) shall carry out Parts A and C.1 of the Project through the RFHA and PIU; (ii) shall cause each of the Participating Regions to carry out Parts B and C.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and (iii) 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 Parts A and C.1 of the Project and cause the Participating Regions to carry out Parts B and C.2 of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) For the purposes of Parts B and C.2 of the Project, the Borrower shall relend \$55,000,000 equivalent out of the proceeds of the Loan to the Participating Regions under separate subsidiary loan agreements to be entered into between the Borrower and each Participating Region (the Participating Region Subsidiary Loan Agreement), under terms and conditions which shall have been approved by the Bank, including but not limited to the following:

(i) the principal amount of the Subsidiary Loan shall be repaid by each Participating Region in Dollars to the Borrower in equal semiannual installments over fifteen (15) years, including a grace period of five (5) years;

(ii) the principal amount of the Subsidiary Loan repayable by each Participating Region shall be the equivalent in Dollars (determined as of the date, or respective dates, of repayment) of the value of the currency or currencies withdrawn from the Loan Account or paid out of their respective Special Account on account of expenditures for Parts B and C.2 of the Project;

(iii) the Borrower shall charge interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate of 150-250 basis points above the rate payable by the Borrower to the Bank under Section 2.05 of this Agreement; and

(iv) the terms and conditions specified in paragraph 11 of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Participating Region Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, shall not assign, amend, abrogate or waive the Participating Region Subsidiary Loan Agreements or any provision thereof.

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

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

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after 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 shall and shall cause each of the Participating Regions to establish and 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 for and in connection with the carrying out of their respective Parts of the Project.

(b) The Borrower shall and shall cause each of the Participating Regions:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts 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 financial statements, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

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

(i) maintain 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 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. By June 30 each year commencing in 1999 and until completion of the Project, the Borrower shall furnish to the Bank an audit report of the Federal Road Fund's financial statements for the preceding calendar year.

ARTICLE V

Remedies of the Bank

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

(a) Any of the Participating Regions shall have failed to perform any of its obligations under the Participating Region Subsidiary Loan 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 any of the Participating Regions will be able to perform its obligations under the Participating Region Subsidiary Loan Agreement.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, the Borrower has opened a Project Account with an initial deposit in local currency equivalent to at least five hundred thousand Dollars (\$500,000) pursuant to paragraph 3 of Schedule 5 to this Agreement.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Ilyinka Street 9
103097 Moscow
Russian Federation

Telex:

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:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

RUSSIAN FEDERATION

By /s/ Yuriy Dmitryevich Maslyukov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes Linn

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) Civil works		56%
(a) under Part A of the Project	267,250,000	
(b) under Part B of the Project	46,550,000	
(2) Goods		100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) under Part A of the Project	2,000,000	
(b) under Part B of the Project	1,000,000	
(3) Consultants' Services Training and Studies		100%
(a) under Part C.1 of the Project	44,900,000	
(b) under Part C.2 of the Project	7,300,000	
(4) Operating Costs		
(a) under Part C.1(b) of the Project	850,000	100%
(b) under Part C.2(b) of the Project	150,000	100%
(5) Unallocated	30,000,000	
TOTAL	400,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods 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 costs" means incremental operating costs incurred in connection with audits required to be carried out under Section 4.01 of this Agreement.

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

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$10,000,000 may be made on account of payments made for expenditures before that date but after June 30, 1998;

(b) payments made for expenditures under Categories 1(b), 2(b), 3(b) and 4(b) in respect of each Participating Region, unless the Bank has received satisfactory evidence that the respective Participating Region Subsidiary Loan Agreement has become effective and that it has been duly authorized and is legally binding upon the parties thereto in accordance with its terms.

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 not exceeding \$300,000 equivalent, (ii) works under contracts not exceeding \$3,000,000 equivalent, (iii) services under contracts not exceeding \$200,000 equivalent in case of firms and under contracts not exceeding \$50,000 equivalent in case of individuals, and (iv) training, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to improve the technical condition of selected high priority roads and bridges on the federal and regional road system; (ii) to facilitate the improvement in the management of the road networks; (iii) to assist the Borrower and Participating Regions in the reform of the institutional structure of road administration and the contracting industry; (iv) to further develop the private road constructing and consulting industries, including the use of competitive bidding in public procurement; and (v) to improve the efficiency in the use of local resources employed in road works based upon better economic selection of projects.

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: Federal Road and Bridge Rehabilitation Program

1. Rehabilitation of about 900 kilometers of selected federal road segments.
2. Rehabilitation, repair, reconstruction, replacement and widening of about 28 selected federal road bridges.
3. Provision of vehicles, equipment, materials and supplies required for the increased management of roads and bridges.

Part B: Regional Road and Bridge Rehabilitation Program

1. Rehabilitation of about 40 kilometers of selected road segments in Participating Regions.
2. Rehabilitation, repair, reconstruction, replacement and widening of about 40 selected road bridges in Participating Regions.

Part C: Technical Assistance

1. Provision of technical assistance to the Borrower for strengthening of the federal road and bridge management administration, including: (a) support to the PIU of RFHA in procurement and implementation of the Project; (b) training of RFHA staff in project management and in environmental aspects of road and bridge management; and (c) carrying out of relevant economic, financial, environmental and social studies for project effectiveness and preparation of follow-up road rehabilitation projects, including preparation of the Indigenous Peoples Mitigation Plans for the Tobolsk-Khanty-Mansyisk road segment pursuant to paragraph 9 (a) of Schedule 5 to this Agreement.

2. Provision of technical assistance to Participating Regions for strengthening their road and bridge management administration, including: (a) support of the extension of the road and bridge management systems developed by RFHA to road administrations of Participating Regions; (b) support to the Participating Regions PIUs in procurement and implementation of the Project; (c) training of the staff of each Participating Regions PIU in project planning, procurement, financial control and administration of road works; and (d) carrying out of relevant economic, financial, environmental and social studies for preparation of follow-up road rehabilitation projects.

* * *

The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (in Dollars)*
April 15, 2004	16,665,000
October 15, 2004	16,665,000
April 15, 2005	16,665,000
October 15, 2005	16,665,000
April 15, 2006	16,665,000
October 15, 2006	16,665,000
April 15, 2007	16,665,000
October 15, 2007	16,665,000
April 15, 2008	16,665,000
October 15, 2008	16,665,000
April 15, 2009	16,665,000
October 15, 2009	16,665,000
April 15, 2010	16,665,000
October 15, 2010	16,665,000
April 15, 2011	16,665,000
October 15, 2011	16,665,000
April 15, 2012	16,665,000
October 15, 2012	16,665,000
April 15, 2013	16,665,000
October 15, 2013	16,665,000
April 15, 2014	16,665,000
October 15, 2014	16,665,000
April 15, 2015	16,665,000
October 15, 2015	16,705,000
TOTAL	400,000,000 =====

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

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Prequalification

Bidders for civil works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for civil works shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each.

(c) 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.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract 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. National Competitive Bidding

Works: (a) under Part A of the Project which are estimated to cost the equivalent of \$3,000,000 or less per contract, up to an aggregate amount not to exceed \$15,000,000 equivalent; and (b) under Part B of the Project which are estimated to cost less than the equivalent of \$3,000,000 or less per contract, up to an aggregate amount not to exceed \$9,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods: (a) for Part A of the Project, estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent; and (b) for Part B of the Project estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$750,000 equivalent, 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.

3. National Shopping

Goods: (a) for Part A of the Project, estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent; and (b) for Part B of the Project estimated to cost less than \$100,000

equivalent per contract, up to an aggregate amount not to exceed \$250,000 equivalent for each Participating Region, 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 D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 works 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

With respect to: (i) each contract awarded in accordance with the provisions of Part B of this Section; and (ii) the first contract awarded in accordance with the provisions of Parts C.1 (a) and C.1 (b) of this Section, the procedures set forth in paragraphs 2 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 shall be procured in accordance with the provisions of the Introduction and Section 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 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions 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 design, supervision and preparation of bidding documents, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed

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

2. Prior Review

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

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

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

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and 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, not later than October 31, 2001, 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 31, 2001, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

2. The Borrower shall maintain the PIU within RFHA with adequate staff, funds, facilities, and other resources required for carrying out of Parts A and C.1 of the Project efficiently.

3. The Borrower shall: (i) open a Project bank account (Project Account) in a bank with an initial deposit in local currency equivalent to at least \$500,000; (ii) within twelve (12) months of the effectiveness of this Agreement, and until completion of the Project, maintain said Project Account with a minimum balance, through quarterly replenishments equivalent to one million dollars (\$1,000,000) or such other amount as may be agreed by the Bank from time to time; and (iii) use the funds of said Project

Account exclusively for financing the implementation of Parts A and C.1 of the Project.

4. The Borrower shall, within one month after the end of each calendar quarter, commencing from December 31, 1998, furnish to the Bank a quarterly progress report on the implementation of Parts A and C.1 of the Project for the previous quarter in form and detail satisfactory to the Bank.

5. By May 31 each year commencing in 1999 and until completion of the Project, the Borrower shall cause RFHA to furnish to the Bank copy of its Annual Report for the preceding year, which shall include, inter alia, information on: (i) the conditions of the borrower's federal road network; (ii) the road maintenance, rehabilitation, reconstruction and construction works completed during the previous year, including the amount spent in each category; and (iii) the federal road works planned for the current year.

6. The Borrower shall ensure that, by December 31, 2000, all road construction, reconstruction and rehabilitation for RFHA and for each Participating Region will be subject to competitive bidding.

7. The Borrower shall ensure that, by December 31, 2000, all road construction and reconstruction works financed from federal and participating regions' budgets will be subject to economic feasibility.

8. For the purposes of carrying out Parts A and B of the Project, any changes to the list of roads and bridges selected for the inclusion in the Project shall be subject to the Bank's approval, and such roads and bridges shall be selected in accordance with the criteria agreed upon between the Borrower and the Bank, upon completion by the Borrower of the economic assessment and environmental and resettlement screening for the proposed roads and bridges in accordance with the guidelines agreed upon between the Borrower and the Bank.

9. (a) Notwithstanding any other provisions of this Agreement, the commencement of any work in the Tyumen - Tobolsk road segment of the Project shall be subject to the preparation of the Indigenous Peoples Mitigation Plan, acceptable to the Bank, for the Tobolsk - Khanty-Mansiysk road segment. Said plan shall ensure that the design and implementation of any road rehabilitation works on the Tobolsk - Khanty-Mansiysk road segment, which the Borrower might undertake irrespective of this Project, shall be carried out taking into account and adequately addressing the needs and cultural preferences of the Indigenous Peoples.

(b) Any road rehabilitation works on the Tobolsk - Khanty-Mansiysk road segment shall be undertaken in accordance with the Indigenous Peoples Mitigation Plan.

10. The Borrower shall:

(a) During each year of the execution of the Project, commencing in 1999, take all necessary measures to make available funds for the purpose of maintenance, repair, and rehabilitation of the federal road network in accordance with its priority road expenditure program; and

(b) The Borrower shall undertake all measures to increase road taxes to be paid by heavy trucks so as to ensure that they contribute a significant proportion of their attributable costs.

11. The Borrower shall, under the respective Participating Region Subsidiary Loan Agreement, cause each Participating Region, inter alia, to:

(a) declare its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, to carry out Parts B and C.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and to provide, promptly as needed, the funds, facilities, services and other resources required for Parts B and C.2 of the Project;

(b) as a condition of effectiveness of the respective Participating Regions Subsidiary Loan Agreement, establish and maintain a Participating Region PIU in its

respective road administration, with adequate staff, funds, facilities, and other resources required for carrying out of Parts B and C.2 of the Project efficiently.

(c) within thirty (30) days after the end of each calendar quarter, furnish to the Borrower and the Bank a quarterly progress report on the implementation of Parts B and C.2 of the Project for the previous quarter in form and detail satisfactory to the Borrower and the Bank;

(d) after one year of the date of effectiveness of its respective Participating Region Subsidiary Loan Agreement, carry out a review, in consultation with the Borrower and the Bank, for evaluating the overall progress in the implementation of Parts B and C.2 of the Project and adopting such measures as may be necessary to resolve any issues in respect thereof;

(e) as a condition of effectiveness of its respective Participating Region Subsidiary Loan Agreement, open a Project bank account for the purposes of Parts B and C.2 of the Project with an initial deposit in the currency of the Borrower equivalent to at least \$100,000 and, until completion of the Project, maintain the said account with a minimum balance, through quarterly replenishments, equivalent to at least \$300,000 or such other amount as may be agreed by the Borrower and the Bank from time to time;

(f) duly perform all its obligations under its respective Participating Region Subsidiary Loan Agreement, and except as the Borrower and the Bank may otherwise agree, not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving its Participating Region Subsidiary Loan Agreement or any provision thereof;

(g) exchange views with the Borrower and the Bank with regard to the progress of Parts B and C.2 of the Project, the performance of its obligations under its respective Participating Region Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan; and

(h) promptly inform the Borrower and the Bank of any condition which interferes or threatens to interfere with the progress of Parts B and C.2 of the Project, the accomplishment of the purposes of the Loan, or the performance by it of its obligations under its respective Participating Region Subsidiary Loan Agreement.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) Categories 1(a), 2(a), 3(a) and 4(a) as set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A and C.1 of the Project (Special Account A); and (ii) Categories 1(b), 2(b), 3(b) and 4(b) as set forth in the said table in respect of Parts B and C.2 of the Project (Special Accounts B and C for each respective Participating Region);

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works 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 to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equivalent, in the case of Special Account A to \$5,000,000; in the case of Special Account B to \$1,000,000; and in the case of Special Account C to \$1,000,000; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation for:

(i) Special Account A shall be limited to an amount equivalent to \$2,500,000 until the aggregate amount of withdrawals from the Loan Account allocated to Categories 1(a), 2(a), 3(a) and 4(a) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General

Conditions for Parts A and C.1 of the Project shall be equal to or exceed the equivalent of \$5,000,000;

(ii) Special Account B shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Loan Account allocated to Categories 1(b), 2(b), 3(b) and 4(b) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts B and C.2 of the Project shall be equal to or exceed the equivalent of \$1,000,000; and

(iii) Special Account C shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Loan Account allocated to Categories 1(b), 2(b), 3(b) and 4(b) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts B and C.2 of the Project shall be equal to or exceed the equivalent of \$1,000,000.

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

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective 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 respective 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 respective 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 any 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 Accounts;

(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 for that Special Account, 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 Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for that Special Account 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

