

CONFORMED COPY

LOAN NUMBER 4662 RU

Loan Agreement

(Treasury Development Project)

between

RUSSIAN FEDERATION

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 31, 2002

LOAN NUMBER 4662 RU

LOAN AGREEMENT

AGREEMENT, dated July 31, 2002, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A)the Bank has received a letter dated March 22, 2002, from the Borrower describing a phased program (the Program) to establish the framework for federal budget execution through the Federal Treasury by development of appropriate institutions, policies,

systems, and procedures, and declaring the Borrower's commitment to implementation of the Program;

(B) the Borrower has requested the Bank to support the execution of the Program through extension to the Borrower of loans up to the equivalent of \$400,000,000 over a period of eight (8) years;

(C) Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project, which constitutes a component part of the Program;

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), 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) "Agency Agreement" means the agreement between the Borrower (represented by MOF) and FER, dated July 25, 2000, as amended to the date of this Agreement, and as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Agency Agreement;

(b) "FER" means the Non-Commercial Foundation for Enterprise Restructuring and Financial Institutions Development, a legal entity organized and established pursuant to the Law of the Russian Federation of January 12, 1996, on Non-Commercial Organizations, and operating on the basis of its Charter dated July 5, 1996, as amended on June 2, 1997, and registered with the Borrower's Ministry of Justice on July 27, 1997; and such term shall include any successor or successors thereto;

(c) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(d) "GFS" means Government Financial Statistics, as used in the context of the

requirements of the International Monetary Fund;

(e) “MOF” means the Borrower’s Ministry of Finance, or any successor thereto; and

(f) “Special Account” means the account 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 two hundred thirty-one million dollars (\$231,000,000).

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 and to be financed out of the proceeds of the Loan and in respect of 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 special deposit account in a bank acceptable to the 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.

Section 2.03. The Closing Date shall be December 31, 2007, 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 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 said 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 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 US 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 ($\frac{3}{4}$ 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 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 2.06, 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 as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its obligations under the Loan Agreement, shall carry out the Project through MOF with due diligence and efficiency and in conformity with appropriate administrative, financial 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, 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 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; 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 maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare, or cause to be prepared, financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheet, statements of sources and uses of funds, and related statements) for each fiscal year audited, in accordance with auditing standards 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 sub-paragraph (i) of this Section for such year 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 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, in accordance with paragraph (a) of this Section, records and separate 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.

(d) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (c) (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 such records and

accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Paragraph E of Schedule 5 to this Agreement, the Borrower shall furnish to the Bank a financial monitoring report, 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;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first full calendar 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 full calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

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) an extraordinary situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and

(b) the Agency Agreement shall have been amended, suspended, abrogated, or repealed so as to affect materially and adversely the implementation of the Project.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified, namely, the event specified in paragraph (b) 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, that the Borrower has entered into a consulting contract satisfactory to the Bank with consultants selected in accordance with the provisions of Section II of Schedule 4 to this Agreement, for the provision of services in connection with quality assurance under the Project.

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 or authorized Deputy 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:	Facsimile:
925-0889	112008	(7-095)

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	248423 (MCI) or	(1 202)

477-6391

Washington, D.C.

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 the City of Moscow, Russian Federation, as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ Victor B. Khristenko

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Julian Schweitzer

Authorized Representative

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	188,220,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); 80% of local expenditures for other items procured locally, including local transportation and insurance related to those items
(2) Consultants' Services	19,720,000	100%

and Training

(3)	Incremental Operating Costs	5,000,000	100%
(4)	Unallocated	15,750,000	
(5)	Front-end Fee	<u>2,310,000</u>	Amount due pursuant to Section 2.04 of this Agreement
	TOTAL	231,000,000	

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 for goods or services supplied from the territory of the Borrower;

(c) the term “Training” means Project related costs and expenses related to study tours, seminars, workshops and other training activities which may be carried out through a consultant services contract, or with the agreement of the Bank, by other means; and

(d) the term “Incremental Operating Costs” comprises salaries and benefits of individual consultants for MOF, salaries and benefits of FER staff and consultants employed for the purposes of Project management (all within a range for each position acceptable to the Bank), utility charges at a rate not to exceed the rate in domestic prices payable by comparable organizations, locally procured office equipment and supplies, costs payable in connection with rental of office space, maintenance of office equipment, systems and facilities, insurance, training, project-related auditing services, organization and attendance of conferences and seminars, and other ordinary and necessary costs payable by FER on account of Project implementation, that would be payable by entities similarly situated on the territory of the Borrower and customarily regarded as a cost of doing business, including administrative costs such as travel expenses and allowances, bank charges, and communications and related expenses; provided, however, that the expenditures hereunder shall be as set forth in the approved budgets which shall have been adopted pursuant to the provisions of Part E of Schedule 5 to this Agreement.

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, under such terms and conditions as the Bank shall specify by notice to the Borrower, for: (a) goods under contracts not exceeding \$100,000

equivalent each; (b) services of consulting firms under contracts not exceeding \$100,000 equivalent each; (c) services of individual consultants under contracts not exceeding \$50,000 equivalent each; (e) training; and (f) incremental operating costs.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the organization of an efficient system of treasury execution of the federal budget, with appropriate legal and institutional framework, systems and procedures.

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: Technical Assistance

1. Policy and design support for:
 - (a) Review of existing budget classifications and design of a revised chart of accounts conforming with the GFS classification methodology;
 - (b) Development of the legal regulatory and operational framework, including guidelines, procedures, regulations, forms and operating manuals for budget execution expenditure forecasting, fiscal reporting, cash management;
 - (c) Design and development of functional specifications for the treasury ledger system and associated technology architectures; and
 - (d) Quality assurance of design work.
2. Provision of technical support and implementation services required for the implementation of the new treasury system.

Part B: Equipment and Software

1. Pilot Phase

Provision of equipment, consisting of servers, workstations and associated peripherals, systems, office and network infrastructure and software, for a set of designated pilot sites including the central facilities at the Treasury headquarters, up to three selected regional treasury departments, including all associated treasury offices.

2. Roll-out Phase

Provision of equipment, consisting of servers, workstations and associated peripherals, systems, office and network infrastructure and software, for the central facilities at the Treasury headquarters, oblast and rayon treasury offices.

3. Software

Provision of application software, system software, database management systems, and application development tools for the Treasury system.

Part C: Training

Provision of workshops, training courses and study tours to cover specific technical and functional areas.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in Dollars)*</u>
On each February 15 and August 15	
beginning February 15, 2008 through August 15, 2019	9,625,000

* 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 and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and 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 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 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 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 may be applied to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract up to an aggregate amount not to exceed \$5,760,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Office equipment estimated to cost less than \$50,000 equivalent per contract up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded

on the basis of national shopping procedures, after at least three quotations have been obtained, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be procured as an extension of an existing contract, or must be purchased from the original supplier to be compatible with existing equipment, or are of a proprietary nature, or must be procured from a particular supplier as a condition of a performance guarantee, and costing \$4,120,000 equivalent or less in the aggregate, 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 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 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 three contracts for goods to be procured in accordance with procedures referred to in each of Parts C.1 and C.2 above; and (ii) all contracts for goods to be procured in accordance with the procedures referred to in C.3 above, the following procedures shall apply:

- (i) prior to the issuance of invitation to quote, the Borrower shall provide to the Bank a copy of the specifications and draft contract;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotation(s) received; 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

1. Consultants' services shall be procured in accordance with the provisions 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. The short list of consultants for services 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 B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for technical assistance for the development of the legal, regulatory and operational framework for budget execution under Parts A and B of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Specialized consulting services for the review and design of budget classification structures and charts of accounts, and key technical advisers for the MOF, as agreed between the Borrower and the Bank, estimated to cost less than \$1,500,000 in the aggregate, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services of accounting and financial specialists and information technology specialists

for the MOF; and project management, accounting, procurement and financial specialists, 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 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 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 the said approval shall have been given.

(d) With respect to each contract for the employment of consulting firms and individual consultants not referred to in paragraphs (b) and (c) above, terms of reference 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.

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

A. Arrangements for Project Implementation and Management

1. The MOF shall be responsible for ensuring the efficient overall implementation of the Project with appropriate management, qualified staff, and provision of adequate facilities and resources.
2. Part of the project management responsibilities including, inter alia, procurement, financial management reporting, accounting and auditing, may be carried out by FER acting as the agent of MOF under the terms of the Agency Agreement, subject to adequate prior provision therefor acceptable to the Bank, as provided in paragraph E of this Schedule.
3. MOF and FER shall maintain the Agency Agreement, and except as may be agreed by the Bank, shall not assign, amend, abrogate, or waive the Agency Agreement or any part thereof.

B. Progress Reviews and Subsequent Implementation of the Project

1. The Borrower shall, not later than June 30, 2004, carry out a review, jointly with the Bank, of the progress achieved in the work related to the Project design undertaken pursuant to Part A of the Project (as described in Schedule 2 to this Agreement); and by not later than September 1, 2004, commence the implementation of recommendations made as part of the said review, taking into account the Bank's comments thereon.
2. The Borrower shall, not later than December 31, 2005, carry out a review, jointly with the Bank, of the progress achieved in the pilot phase undertaken pursuant to Part B.1 of the Project (as described in Schedule 2 to this Agreement); and by not later than March 1, 2006, commence the implementation of recommendations made as part of the said review, taking into account the Bank's comments thereon.

C. Training

1. Regarding the training programs to be carried out under the Project, the Borrower shall:
 - (a) select the beneficiaries of such training programs in accordance with criteria satisfactory to the Bank and providers in accordance with procedures agreed with the Bank; and
 - (b) not later than December 31 of each year, exchange views with the Bank on the training programs to be carried out in the following calendar year.

D. Counterpart Funding Requirements for the Project

Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall ensure that sufficient annual allocations will be made with the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

E. Financial Planning and Management of Incremental Operating Costs

The Borrower shall ensure the following provision for financial planning and management of incremental operating costs under the Agency Agreement:

1. Prior to incurring any commitments related to the Project under the Agency Agreement, FER shall submit to the MOF and the Bank for their prior review the proposed budget with financing plan for incremental operating costs to be incurred under the Project up to the end of the calendar year, separately for activities of individual consultants for MOF and for activities involving the carrying out of other project management functions, in such detail as the MOF and the Bank shall reasonably request. Such budget with financing plan shall identify specifically the expenditures to be financed by the Bank and the Borrower, respectively.
2. For any subsequent year during the implementation of the Project, FER shall prepare, by December 1 of the preceding year, the proposed annual budget with financing plan in the same manner as provided under paragraph 1 hereof.
3. Except as may be otherwise agreed by the Bank, FER shall carry out all Project support activities and incur project-related expenditures in respect of incremental operating costs during the year in accordance with the Agency Agreement and the budget with financing plan which shall have been adopted taking into account the views of the MOF and the Bank.

F. Monitoring and Evaluation

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) furnish to the Bank, on or about December 31, 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 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 March 1, 2006, or such later date as the Bank shall request, the report referred to in sub-paragraph (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's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (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 an amount equivalent to \$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 an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan 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 \$15,000,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 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.

