

CONFORMED COPY

LOAN NUMBER 4012 RU

Project Agreement

(Enterprise Housing Divestiture Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

PROJECT CENTER FOR ENTERPRISE HOUSING DIVESTITURE

Dated July 29, 1996

LOAN NUMBER 4012 RU

PROJECT AGREEMENT

AGREEMENT, dated July 29, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PROJECT CENTER FOR ENTERPRISE HOUSING DIVESTITURE (CPIU).

WHEREAS (A) by the Loan Agreement of even date herewith between RUSSIAN FEDERATION (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to three hundred million dollars (\$300,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the CPIU agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by subsidiary loan agreements to be entered into among the Borrower, each of the Participating Cities (as defined in Section 1.02 (b) of the Loan Agreement), and the Governments of the Oblast or Republic in which the Participating Cities are located, part of the proceeds of the loan provided for under the Loan Agreement will be made available to Participating Cities on the terms and conditions set forth in said Participating Cities Subsidiary Loan Agreements (as defined in Section 1.02 (c) of the Loan Agreement); and

WHEREAS the CPIU in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth and the term "Operations Manual" means the manual to be adopted by the CPIU pursuant to the provisions of Section 3.01 (b) of this Agreement.

ARTICLE II

Execution of the Project

Section 2.01. (a) The CPIU declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall manage, coordinate, and supervise the carrying out of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and engineering practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The CPIU shall, without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the CPIU shall otherwise agree, take all measures as shall be consistent with the Implementation Program set forth in the Schedule to this Agreement.

Section 2.02. Procurement of the 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 the Loan Agreement.

Section 2.03. (a) The CPIU shall carry out, or cause the Participating Cities to carry out 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) in respect of the Project Agreement.

(b) Without limitation upon the provisions of paragraph (a) of this Section, the CPIU shall:

- (i) 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 Bank and the CPIU, a plan for the future operation of the Project;
- (ii) afford the Bank a reasonable opportunity to exchange views with the CPIU on said plan; and
- (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 2.04. (a) The CPIU shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Participating Cities Subsidiary Loan Agreements and other matters relating to the purposes of the Loan.

(b) The CPIU shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by the CPIU of its obligations under this Agreement and by the Participating Cities under the Participating Cities Subsidiary Loan Agreements.

ARTICLE III

Management and Operations of the CPIU

Section 3.01. (a) The CPIU shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices and in accordance with the Operations Manual, once adopted pursuant to the provisions of paragraph (b) of this Section, and under the supervision of qualified and experienced management, which shall include a director general and two deputy directors, whose experience and qualifications are acceptable to the Bank, assisted by competent staff in adequate numbers.

(b) The CPIU shall, not later than September 15, 1996, adopt an operations manual (the Operations Manual), acceptable to the Bank, setting forth its own detailed operations, internal approval, monitoring, and reporting procedures and specifying the expected reporting formats to be followed by the LIGs in respect of Project budgeting and accounting systems and furnish a copy of the Operations Manual to the LIGs.

(c) The CPIU shall not amend, abrogate or waive any provision of the Operations Manual without the prior approval of the Bank.

Section 3.02. The CPIU shall at all times operate and maintain its machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, and financial practices.

Section 3.03. The CPIU shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The CPIU shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and those in respect of the Project:

(b) The CPIU shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and those in respect of the Project 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 months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the CPIU thereunder shall terminate on the date on which the Loan Agreement shall terminate or one year after the Closing Date, whichever is the earlier, in accordance with its terms, and the Bank shall promptly notify the CPIU thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

For the CPIU:

Project Center for
Enterprise Housing Divestiture
Building 2/3
Khlebnyi pereulok
121814 Moscow
Russian Federation

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the CPIU, may be taken or executed by the Director of the CPIU or such other person or persons as said Director shall designate in writing, and the CPIU shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Europe and Central Asia

PROJECT CENTER FOR ENTERPRISE
HOUSING DIVESTITURE

By /s/ Yuli Vorontsov

Authorized Representative

SCHEDULE

Implementation Program

1. (a) By November 1 of each year until the completion of the Project, the CPIU shall furnish to the Bank a report on: (i) the initial assessment of compliance of the Participating Cities with the policy and institutional reform targets during the respective year; (ii) estimated budgets for the next calendar year of the Participating Cities, including line items for taxes and local contributions for the Project; and (iii) a proposal for the policy and institutional reform targets to be complied with by the Participating Cities during the next following year for its approval.

(b) By November 30 of each year of execution of the Project, the CPIU shall make available to all Participating Cities the policy and institutional reform targets to be complied with by the Participating Cities during the following year as such policy and institutional targets have been approved by the Bank.

(c) By March 1 of each year of execution of the Project, the CPIU shall finalize its initial assessment of Participating City compliance with the policy and institutional reform targets and furnish a proposed final report thereon to the Bank; such report to include a detailed executed budget from each of the participating Cities for the last calendar year.

(d) By March 15 of each year of execution of the project, the CPIU shall issue the final version of the report referred to in paragraph (c) of this Section, satisfactory to the Bank, and inform the Participating Cities of the results promptly.

(e) In case that a Participating City has been found non-compliant with the policy and institutional reform targets, the CPIU shall not take any action in respect of new procurement for the benefit of any such Participating City under Part B or C of the Project, unless the Bank shall have been satisfied that adequate remedial measures have been taken by any such Participating City to achieve the respective policy and institutional reform targets.

2. In respect of Part A (1) of the Project, the CPIU shall engage the consultants or consultant firms for engineering, procurement, and technical services for the benefit of the Participating Cities in accordance with the provisions of Section II of Schedule 4 to the Loan Agreement and shall apportion expenses to each of the Participating Cities in accordance with the provision of the respective Participating City Subsidiary Loan Agreement.

3. In respect of Parts B and C of the Project, CPIU shall, on behalf of the Participating Cities, invite bids or solicit quotations, as the case may be, in respect of goods, services and works to be provided under such Parts of the Project, evaluate such bids or quotations, together with Participating Cities representatives, recommend to the Participating City concerned the award of contract, all in accordance with the provisions of Section II of Schedule 4 to the Loan Agreement; the respective Participating City shall, upon receiving such recommendation, execute the contract with the supplier, consultant or contractor so recommended and, thereupon, the CPIU shall assist to monitor and supervise the execution of the contract concerned.

4. (a) In selecting housing facilities to be included under Part B.2 of the Project, the CPIU shall: (i) assure that no investments shall be carried out in respect of housing facilities which are owned by enterprises; and (ii) apply eligibility and priority criteria, agreed by the Bank and the CPIU.

(b) In selecting investments in respect of building retrofits under Part B.2 of the Project, the CPIU shall review investments proposed by the Participating Cities in order to ensure that such investments have an overall internal financial rate of return of the proposed retrofit intervention of no less than 20% and each single retrofit measure included in such intervention shall have an internal financial rate of return of no less than 10%, unless otherwise agreed by the Bank and the CPIU, such rates of return to be calculated in a manner acceptable to the Bank.

5. Without any limitation upon the provisions set forth in Section 9.07 of the General Conditions, the CPIU shall furnish monthly and quarterly reports, which shall include information on overall procurement progress, Project costing and estimates, revisions of Project cost, procurement schedules, and disbursement progress.

6. The CPIU shall: (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with targets and indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof.

(b) Prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 1998, 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 February 28, 1999, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

