

CONFORMED COPY

LOAN NUMBER 4234 RU

Project Agreement

(Social Protection Implementation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

RUSSIAN FOUNDATION FOR SOCIAL REFORMS

Dated December 18, 1997

LOAN NUMBER 4234 RU

PROJECT AGREEMENT

AGREEMENT, dated December 18, 1997, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the RUSSIAN FOUNDATION FOR SOCIAL REFORMS (RFSR).

WHEREAS (A) by the Loan Agreement of even date herewith between Russian Federation (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount equal to twenty-eight million six hundred thousand Dollars (\$28,600,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that RFSR agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) by a subsidiary agreement to be entered into between the Borrower and RFSR, part of the proceeds of the Loan provided for under the Loan Agreement will be made available to RFSR on terms and conditions set forth in said Subsidiary Agreement; and

WHEREAS RFSR, 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 and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) RFSR declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts A through C.2 and C.4 through F of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, 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 Bank and RFSR shall otherwise agree, RFSR shall carry out the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement. Section 2.02. Except as the Bank shall otherwise agree, procurement of 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 the Loan Agreement.

Section 2.03. (a) RFSR shall 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) in respect of the Project Agreement.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, RFSR shall: (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, a plan for the continuation of the pilot activities supported by the Project; and (ii) afford the Bank a reasonable opportunity to exchange views with RFSR on said plan.

Section 2.04. RFSR shall duly perform all its obligations under the Subsidiary Agreement. Except as the Bank shall otherwise agree, RFSR shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Agreement or any provision thereof.

Section 2.05. (a) RFSR 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 Subsidiary Agreement, and other matters relating to the purposes of the Loan.

(b) RFSR 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 RFSR of its obligations under this Agreement and under the Subsidiary Agreement.

Section 2.06. RFSR shall cooperate with the Borrower in carrying out the obligations referred to in Section 3.05 of the Loan Agreement.

ARTICLE III

Management and Operations of RFSR

Section 3.01. (a) RFSR shall carry on its operations and conduct its affairs in accordance with sound financial and administrative practices and the Operations Manual under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) Except as the Bank shall otherwise agree, RFSR shall not undertake any activity involving an expansion in the scope of the operations or activities of RFSR

beyond that defined by the Project, so as to affect materially and adversely the operations or the financial condition of RFSR or its ability to carry out the Project or perform any of its obligations under the Project Agreement or the Subsidiary Agreement.

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

Section 3.03. RFSR shall not amend its Statutes without the prior approval of the Bank.

Section 3.04. RFSR 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) RFSR shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) RFSR shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) 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 RFSR thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify RFSR of this event.

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 addresses 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:

248423 (MCI) or
64145 (MCI)

For RFSR:

Russian Foundation for Social Reforms
3/5 Smolensky Boulevard
Moscow 119121
Russian Federation

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of RFSR or by RFSR on behalf of the Borrower under the Loan Agreement, may be taken or executed by its Director-General, or by such other person or persons as the Director-General shall designate in writing, and RFSR 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/ Michael Carter

Acting Regional Vice President
Europe and Central Asia

RUSSIAN FOUNDATION FOR SOCIAL REFORMS

By /s/ Anatoly Gorshkov

Authorized Representative

Schedule

Implementation Schedule

I. Organization and Management of RFSR

Without limitation upon the provisions of Section 3.01 of this Agreement, RFSR shall employ at all times a Director General, a Project Director; an Accountant; a Procurement Specialist; a Disbursement Specialist, and Component Coordinators for: (i) Pension Reform under Part A of the Project; (ii) Social Assistance/Social Protection under Parts B and C, respectively, of the Project; (iii) Child Allowance under Part D of the Project; and (iv) Unemployment Assistance under Part E of the Project, all of whose qualifications and experience shall be acceptable to the Bank.

II. Financial Management

By October 31 of each year, RFSR shall submit to the Bank for review the proposed budget and financing plan for RFSR in such detail as the Bank shall reasonably request. Such budget and financing plan shall identify the expenditures to be financed by the Bank and the Borrower, respectively, during the following year.

III. Reporting

1. RFSR shall:

(a) carry out Parts A through C.2 and C.4 through F of the Project under terms of reference satisfactory to the Bank which shall include specific programs or plans of action to meet the objectives of the Project;

(b) promptly after the completion of each consultant activity under the Project furnish to the Bank a copy of its findings and recommendations and of any reports prepared, including such programs or plans of action; and

(c) afford the Bank a reasonable opportunity to exchange views on such findings, recommendations and programs or plans of action.

2. Regarding the training programs to be carried out under Parts A through C.2 and C.5 through F of the Project, RFSR shall:

(a) furnish to the Bank for approval the content of each such program as well as the schedule for its implementation;

(b) select the beneficiaries of such training programs in accordance with criteria satisfactory to the Bank;

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

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

3. RFSR shall, by December 1 of each year during the implementation of the Project, furnish to the Bank for its review the proposed work program of RFSR for the carrying out of Parts A through C.2 and C.4 through F of the Project activities during the following year, including specific information, in such detail as the Bank shall reasonably request, concerning the expenditures expected to be incurred by RFSR in respect of its operating expenses on account of such activities and the planned financing therefor and shall carry out the program as agreed with the Bank; and

4. RFSR shall prepare and submit to the Bank annual progress reports by February 15 of each year, and quarterly progress reports one month after the end of each quarter.

IV. Interim Review and Performance

RFSR shall:

(a) maintain procedures adequate to enable it to monitor and evaluate on an ongoing basis its performance, in accordance with 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 March 31, 1999, 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 June 30, 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.

