

CONFORMED COPY

LOAN NUMBER 4599-UA

Project Agreement

(Sevastopol Heat Supply Improvement Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

SEVASTOPOL CITY STATE ADMINISTRATION

and

SEVTEPLOSERVIS

Dated September 23, 2002



PROJECT AGREEMENT

AGREEMENT, dated September 23, 2002, among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), SEVASTOPOL CITY STATE ADMINISTRATION (Sevastopol CSA) and SEVTEPLOSERVIS (Sevteploservis).

WHEREAS (A) by the Loan Agreement of even date herewith between Ukraine (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to twenty-eight million one hundred ninety thousand dollars (\$28,190,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that Sevastopol CSA and Sevteploservis agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Ministry of Finance, acting as the Representative of the Borrower, and Sevastopol CSA, the proceeds of the loan provided for under the Loan Agreement will be made available to Sevastopol CSA for on-lending to Sevteploservis on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS Sevastopol CSA and Sevteploservis, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have 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.

ARTICLE II

**Execution of the Project
Obligations of Sevastopol CSA**

Section 2.01. (a) Sevastopol CSA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end:

- (i) shall carry out Part B.2 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 Part B.2 of the Project; and

- (ii) without any limitation or restriction upon any of its other obligations under the Project Agreement, shall cause Sevteploservis to carry out Parts A, B.1 and B.3 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, environmental, engineering and heating practices and to perform in accordance with the provisions of the Project Agreement all the obligations of Sevteploservis herein set forth, shall take or cause to be taken all action including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Sevteploservis to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Sevastopol CSA shall on-lend the proceeds of the Subsidiary Loan to Sevteploservis under a Sub-loan agreement to be entered into between the Sevastopol CSA and Sevteploservis under terms and conditions which shall have been agreed by the Bank. Except as the Bank shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the Sub-loan shall be denominated in Dollars and shall be repaid by Sevteploservis to Sevastopol CSA in semi-annual installments over twenty (20) years, including a grace period of five (5) years;
- (ii) a fee in an amount equal to one percent (1%) of the amount of the Sub-Loan shall be charged and shall be payable upon the date of effectiveness of the Sub-loan;
- (iii) interest shall be charged on the principal amount of the Sub-loan withdrawn and outstanding from time to time at a rate equal to the rate payable by the Borrower from time to time pursuant to Section 2.06 (a) of the Loan Agreement plus a margin of up to one percent (1%); and
- (iv) a commitment fee shall be charged on the undisbursed amount of the Sub-loan at a rate equal to the rate payable by the Borrower from time to time pursuant to Section 2.05 of the Loan Agreement.

(c) Sevastopol CSA shall exercise its rights under the Sub-loan Agreement in such manner as to protect the interests of Sevastopol CSA, the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, Sevastopol CSA shall not assign, amend, abrogate or waive the Sub-loan Agreement or any provision thereof.

(d) Sevastopol CSA shall duly perform all its obligations under the Subsidiary Loan Agreement and the Sub-loan Agreement and exercise its rights under the Subsidiary Loan Agreement and the Sub-loan Agreement in such manner as to protect the interests of the

Borrower, the Bank, Sevteploservis, and Sevastopol CSA and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, Sevastopol CSA shall not take or concur in any actions which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof or the Sub-loan Agreement or any provision thereof.

Section 2.02. Without limitation upon the generality of the obligations of the Sevastopol CSA set forth in Section 2.01 of this Agreement, the Sevastopol CSA shall:

(a) take all measures necessary to enable Sevteploservis to cover the costs of heat and hot water production, operations and maintenance, depreciation, interest and a profit margin while remaining competitive with other heating alternatives and to meet the financial covenants set forth in Sections 5.05 and 5.08 of this Agreement through periodic adjustment of hot water and heat tariffs of Sevteploservis, which tariff adjustments shall be determined in accordance with a methodology acceptable to the Bank; and

(b) take all measures necessary to reconstitute Sevteploservis as a joint stock company by December 31, 2004, as set forth in Section 4.01 (b) of this Agreement.

Section 2.03. Sevastopol CSA shall:

(a) by July 1, 2003, carry out a heat tariff study in accordance with terms of reference acceptable to the Bank with the assistance of consultants satisfactory to the Bank; and

(b) within 30 days of completion of the said study, furnish to the Bank a copy of its findings and recommendations.

Section 2.04. By June 30, 2002, Sevastopol CSA shall implement the measures required to improve the functioning and effectiveness of the Sevastopol Social Assistance Program, including undertaking a public awareness campaign, improving means testing for households to better target assistance to those in need, reviewing the rules and regulations governing the Sevastopol Social Assistance Program and meeting its computerization requirements.

Section 2.05. (a) Sevastopol CSA shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement, under the Subsidiary Loan Agreement and under the Sub-loan Agreement, and other matters relating to the purposes of the Loan.

(b) Sevastopol CSA 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 Sevastopol CSA of its obligations under this Agreement, under the Subsidiary Loan Agreement and under the Sub-loan Agreement.

ARTICLE III

Execution of the Project Obligations of Sevteploservis

Section 3.01. Sevteploservis 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, B.1 and B.3 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and heating practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods required for Part A of the Project and services under Parts B.1 (a) and B.3 of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to this Project Agreement.

Section 3.03. Sevteploservis 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, respectively) in respect of the Project Agreement and Parts A, B.1 (a), B.2 (a) and B.3 of the Project.

Section 3.04. Sevteploservis 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 Parts A, B.1 and B.3 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, 2003, 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 Parts A, B.1 and B.3 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 Parts A, B.1 and B.3 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by March 31, 2004, 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 Parts A, B.1 and B.3 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.

Section 3.05. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, Sevteploservis shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) month after the Closing Date or such later date as may be agreed for this purpose between the Bank and Sevteploservis, a plan for the future operation of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with Sevastopol CSA and Sevteploservis on said plan.

Section 3.06. Sevteploservis shall duly perform all its obligations under the Sub-loan Agreement. Except as the Bank shall otherwise agree, Sevteploservis shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Sub-loan Agreement or any provision thereof.

Section 3.07. (a) Sevteploservis shall, at the request of the Bank, exchange views with the Bank with regard to progress of Parts A, B.1 and B.3 of the Project, the performance of its obligations under this Agreement and under the Sub-loan Agreement, and other matters relating to the purposes of the Loan.

(b) Sevteploservis shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts A, B.1 and B.3 of the Project, the accomplishment of the purposes of the Loan, or the performance by Sevteploservis of its obligations under this Agreement and under the Sub-loan Agreement.

ARTICLE IV

Management and Operations of Sevteploservis

Section 4.01. (a) Sevteploservis shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, environmental and heating management practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) Sevteploservis shall, by December 31, 2004, take all measures required on its part to be reconstituted as a joint-stock company under the applicable laws and regulations of the Borrower with operational and other policies and procedures acceptable to the Bank.

Section 4.02. Sevteploservis shall at all times operate and maintain its plant, 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, financial, environmental and heating management practices.

Section 4.03. Sevteploservis 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 V

Financial Covenants

Section 5.01. (a) Sevteploservis shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Parts A, B.1 and B.3 of the Project.

(b) Sevteploservis shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account 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 statements 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, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may 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 Project Management Reports or statements of expenditure, Sevteploservis shall:

- (i) maintain or cause to be maintained, in accordance with sound accounting practices, 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 (1) 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) Sevteploservis shall:
- (i) have the records and accounts referred to in paragraph (c) (i) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
 - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 5.02. (a) Without limitation upon the provisions of Section 5.01 of this Agreement, Sevteploservis shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 5.01 in order to enable Sevteploservis, not later than September 30, 2001, or such later date as the Bank shall agree, to prepare semi-annual Project Management Reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Sub-Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Sub-Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains

variances between the actual and previously forecast implementation targets; and

- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Sub-Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, Sevteploservis shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar semester a Project Management Report for such period.

Section 5.03. Sevteploservis shall implement the second phase of the financial management systems development which shall include the development of systems and procedures for cost accounting, budgeting, treasury and cash management, management information and billing and collection, all in accordance with terms of reference acceptable to the Bank and with the assistance of consultants satisfactory to the Bank.

Section 5.04. (a) Except as the Bank shall otherwise agree, Sevteploservis shall not incur any debt unless a reasonable forecast of the revenues and expenditures of Sevteploservis shows that the estimated net revenues of Sevteploservis for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of Sevteploservis in such year on all debt of Sevteploservis including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term “debt” means any indebtedness of the Sevteploservis maturing by its terms more than one (1) year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term “net revenues” means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

- (iv) The term “net non-operating income” means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term “reasonable forecast” means a forecast prepared by the Sevteploservis not earlier than twelve (12) months prior to the incidence of the debt in question, which both the Bank and the Sevteploservis accept as reasonable and as to which the Bank has notified the Sevteploservis of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Sevteploservis.
- (vii) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.05. (a) Except as the Bank shall otherwise agree, Sevteploservis shall maintain a ratio of current assets to current liabilities of not less than 1.3.

(b) Before August 31 in each of its fiscal years, Sevteploservis shall, on the basis of forecasts prepared by Sevteploservis and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that Sevteploservis would not meet the requirements set forth in paragraph (a) for the Borrower’s fiscal years covered by such review, Sevteploservis shall promptly take all necessary measures (including, without limitation, adjustments of the structure of levels of its tariffs in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term “current assets” means cash, all assets which could in the ordinary course of business be converted into cash within twelve

months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.

- (ii) The term “current liabilities” means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (iii) the term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.06. (a) Except as the Bank shall otherwise agree, during Project implementation, Sevteploservis shall not declare any dividend or make any other distribution that exceeds 10% of its annual net income after taxes.

(b) For the purposes of this Section the term “net income after taxes” means the sum of all operating and non-operating revenues less all operating and non-operating expenses, administrative expenses, depreciation, other non-cash charges, interest and other charges on debt, and taxes.

Section 5.07. Sevteploservis shall take all actions required on its part to request Sevastopol CSA to establish heat and hot water tariffs for Sevteploservis at such levels as shall enable Sevteploservis to cover the costs of heat and hot water production, operations and maintenance, interest payments, make allowances for depreciation and make contributions to its reserves and comply with the covenants set out in Sections 5.05 and 5.08 of this Project Agreement.

Section 5.08. Except as the Bank shall otherwise agree, Sevteploservis shall maintain its overall accounts receivable at not more than 90 days during its Fiscal Years 2001-2003 and reduce its overall accounts receivables to not more than 75 days during its Fiscal Year 2004, and 60 days in each Fiscal Year thereafter.

Section 5.09. Beginning with its Fiscal Year 2001, Sevteploservis shall prepare and furnish to the Bank on or about August 31 of each year during Project implementation, a financial report, containing its financial projections for the upcoming Fiscal Year.

ARTICLE VI

Effective Date; Termination; Cancellation and Suspension

Section 6.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 6.02. This Agreement and all obligations of the Bank, of Sevastopol CSA and of Sevteploservis thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify Sevastopol CSA and Sevteploservis thereof.

Section 6.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. 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:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

For Sevastopol City State Administration:

2 Lenina Street
Sevastopol
99011, Ukraine

For Sevteploservis:

25 General Ostryakov Prospect
P.O. Box 35, Sevastopol
99029, Ukraine

Section 7.02. (a) Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Sevastopol CSA, may be taken or executed by the Chairman or such other person or persons as the Chairman shall designate in writing, and Sevastopol CSA shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

Section 7.03. 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/ Luca Barbone
Director
Ukraine, Belarus and Moldova
Europe and Central Asia

SEVASTOPOL CITY STATE ADMINISTRATION

By /s/ Kostyantyn Gryshchenko
Authorized Representative

SEVTEPLOSERVIS

By /s/ Kostyantyn Gryshchenko
Authorized Representative

SCHEDULE

Procurement

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 and 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 boiler equipment shall be grouped in bid packages estimated to cost \$1,000,000 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 shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract and up to an aggregate amount not to exceed \$300,000 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.

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 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 all contracts procured under the Loan, the procedures set forth in paragraphs 2 and 3 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

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: Least Cost Selection

Services for audit under Part B.3 of the Project which are estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

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

Prior Review

1. With respect to each contract for services, 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.
2. With respect to each contract for the employment of audit firms estimated to cost \$50,000 equivalent or less per contract the qualifications, experience, terms of reference and terms of employment of the audit firms 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.

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