Loan Agreement

(St. Petersburg Economic Development Loan)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 4, 2004
LOAN AGREEMENT

AGREEMENT, dated August 4, 2004, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the City of St. Petersburg (St. Petersburg) a letter dated February 11, 2003, describing a program of actions, objectives and policies designed to strengthen and reform the economy of St. Petersburg (the Program), declaring St. Petersburg’s commitment to the execution of the Program;

(B) by letter dated April 22, 2003, the Borrower has confirmed its approval of the Program and expressed its commitment to facilitate St. Petersburg’s implementation of the Program, during the execution thereof, by lending to and for use by St. Petersburg funds in local currency in amounts equivalent to the Loan amounts disbursed by the Bank in support of the Program, and by undertaking the Project described in Schedule 2 to this Agreement (the Project), which is related to the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project, has requested the Bank to assist in the financing of the Project, and has requested assistance from the Bank in support of the Program during the execution thereof;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower in support of the Program and the Project, 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), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:
(a) In Section 2.01, a new paragraph (22) is added to read: “‘Program’ means the program referred to in the Preamble to the Loan Agreement.”;

(b) Section 4.01 is modified to read: “Except as the Borrower and the Bank shall otherwise agree, withdrawals from the Loan Account: (a) with respect to expenditures under Categories (1), (2), (3), (4), (5) and (7) of the table in paragraph 1 of Schedule 1 to the Loan Agreement shall be made in the respective currencies in which the expenditures to be financed out of the proceeds of the Loan have been paid or are payable; provided, however, that withdrawals in respect of expenditures in the currency of the Borrower shall be made in such currency or currencies as the Bank shall from time to time reasonably select; and (b) under Category (6) of the table in paragraph 1 of Schedule 1 to the Loan Agreement shall be made in the currency of the Deposit Account specified in Section 2.03 (b) of the Loan Agreement.”

(c) Section 5.01 is renumbered as Section 5.01 (a) and the following new sub-section (b) is added to read:

“(b) The Borrower shall be entitled to withdraw the proceeds of the Loan allocated to Category (6) of the table in paragraph 1 of Schedule 1 to the Loan Agreement from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”

(d) The last sentence of Section 5.03 is modified to read: “Applications for withdrawals from Categories (1) through (5) in the table set forth in paragraph 1 of Schedule 1 to the Loan Agreement, including the documentation required pursuant to this Article, shall be made promptly in relation to expenditures of the Project.”

(e) Section 9.05 is modified to read: “Except as the Bank shall otherwise agree, the Borrower shall cause all goods, works, services, and operating costs, financed out of the proceeds of the Loan allocated to Categories (1) through (5) in the table set forth in paragraph 1 of Schedule 1 to the Loan Agreement to be used exclusively for the purposes of the Project.”

(f) Paragraph (c) of Section 9.07 of the General Conditions is modified to read:

“(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program and Project, their cost and the benefits derived and to be derived from them, the
performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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 to be entered into between the Borrower, represented by MOF and MOCMC, and FISP pursuant to Section 3.02 (b) of this Agreement;

(b) “Annual work program” means an annual program of actions to be undertaken by the Borrower with respect to Project implementation;

(c) “CIF” means the Cultural Investment Facility, a special fund established by the Borrower for the purpose of making CIF Grants to recipient cultural institutions under Part B of the Project, to be administered by FISP under the supervision of the Interministerial Grant Evaluation Committee in accordance with the provisions of the Project Operational Manual;

(d) “CIF Grants” means grants made out of the Cultural Investment Facility to recipient cultural institutions for CIF Sub-projects under Part B of the Project;

(e) “CIF Sub-project” means a specific investment in or rehabilitation of, a cultural institution in, or in the vicinity of St. Petersburg, which has been prepared and selected by FISP in accordance with the Project Operational Manual for the purposes of Part B of the Project;

(f) “Deposit Account” means the account referred to in Section 2.03 of this Agreement;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 5.02 of this Agreement;

(h) “FISP” means St. Petersburg Foundation for Investment Projects, a non-commercial foundation established pursuant to Resolution of the Governor of St. Petersburg No. 331-p, dated October 28, 1996, and registered by the Registration Chamber of St. Petersburg, under Certificate of Registration No. 43863, dated March 4, 1997, which is the entity authorized to implement the Project pursuant to the Agency Agreement;
(i) “Interministerial Grant Evaluation Committee” means the Borrower’s committee for the evaluation of applications for CIF Grants under Part B of the Project to be established pursuant to Section 7.01 (c) of this Agreement;

(j) “MOCMC” means the Borrower’s Ministry of Culture and Mass Communication;

(k) “MOF” means the Borrower’s Ministry of Finance;

(l) “Project Account” means the account referred to in paragraph 5 of Schedule 6 to this Agreement;

(m) “Project Operational Manual” means the manual setting forth procedures and rules related to Project implementation, to be adopted pursuant to Section 7.01 (d) of this Agreement, as the same may be amended from time to time;

(n) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(o) “Strategic Plan” means the plan describing the plans and policies relating to long-term development of St. Petersburg City infrastructure and services, adopted by the General Council for the Strategic Plan of St. Petersburg on December 1, 1997;

(p) “Subsidiary Loan Agreement” means the subsidiary loan agreement to be entered into by MOF and St. Petersburg in conformity with the provisions of Section 4.02 of this Agreement, as the same may be amended from time to time;

(q) “Subsidiary Loan” means the loan provided under the Subsidiary Loan Agreement; and

(r) “St. Petersburg Working Group” means a Group established for the purposes of the Program pursuant to the Order No. 237-p of the Governor of St. Petersburg of February 23, 2001, which is chaired by the Governor for St. Petersburg, and comprising representatives of the Committees of Construction, Economic Development, Finance, and Property of the City of St. Petersburg.

Section 1.03. Each reference in the General Conditions to the Project Implementation Entity shall be deemed as a reference to FISP.
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 one hundred sixty-one million one hundred thousand dollars ($161,100,000).

Section 2.02. (a) The amount of the Loan allocated to Categories (1) through (5) in the table set forth in paragraph 1 of Schedule 1 to this Agreement may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and operating costs, required for the Project and to be financed out of the proceeds of the Loan; and (ii) qualifying expenditures incurred under a CIF Sub-project which is being financed through a CIF Grant pursuant to Part B of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account (the Special 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 7 to this Agreement.

Section 2.03. (a) Subject to provisions of paragraphs (b) and (c) of this Section, and Schedule 1 to this Agreement, the Borrower shall be entitled to withdraw the proceeds of the Loan allocated to Category (6) in the table set forth in paragraph 1 of Schedule 1 to this Agreement from the Loan Account, in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account with respect to Category (6) in the table set forth in Paragraph 1 of Schedule 1 to this Agreement, and thereafter maintain in its central bank, a deposit account (Deposit Account) in Dollars, on terms and conditions satisfactory to the Bank. All withdrawals with respect to such Category (6) shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan allocated from time to time to Category (6) shall not be used to finance expenditures excluded pursuant to the provisions of paragraph 7 of Schedule 1 to this Agreement. If at any time, the Bank shall have determined, based on evidence satisfactory to the Bank, and after an exchange of views with the Borrower, that any of the proceeds of such Category (6) shall have been used to make a payment for an expenditure so excluded, the Borrower shall,
promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

Section 2.04. The Closing Date shall be August 31, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.05. The Borrower shall pay to the Bank a front-end 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 such fee.

Section 2.06. 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 2.07. (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 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 (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 2.07, 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 2.08. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.09. 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. The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its obligations under the Loan Agreement, shall:

(a) carry out the Project through MOCMC with the assistance of FISP, with due diligence and efficiency and in conformity with appropriate administrative and financial practices;
(b) cause FISP to perform in accordance with the Agency Agreement all the obligations of FISP therein set forth; and

(c) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) carry out the Project in accordance with the Implementation Program set forth in Schedule 6 to this Agreement;

(b) through MOF and MOCMC, enter into an agency agreement with FISP (the Agency Agreement), on such terms as shall be acceptable to the Bank, which shall include terms specifying the responsibilities of FISP in respect of coordination of Project activities, accounting, preparation of requests for withdrawals from the Loan Account, procurement, and effecting of payments out of the Special Account and make available to FISP, on a non-reimbursable basis, the portion of the proceeds of the Loan allocated from time to time to Categories (1), (2), (3), (4) and (5) of the table set forth in paragraph 1 of Schedule 1 to this Agreement; and

(c) until the completion of the relevant project parts, maintain FISP, and ensure that it has the resources, is staffed by personnel with qualifications and under terms of reference, and functions at all times in accordance with procedures necessary and appropriate for the carrying out of the Project, and satisfactory to the Bank.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works, consultants’ services and training required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 5 to this Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan 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

Particular Covenants in Respect of the Program

Section 4.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, or of St. Petersburg, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 4 to this Agreement. The Borrower shall, as allowed by the terms of the Subsidiary Loan Agreement, cause St. Petersburg to participate in such exchanges of views with the Borrower and the Bank.

(b) Prior to each such exchange of views, the Borrower shall, as allowed by the terms of the Subsidiary Loan Agreement, cause St. Petersburg to furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views, and, as allowed by the terms of the Subsidiary Loan Agreement, cause St. Petersburg to exchange views, with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 4 to this Agreement.

(d) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall, as allowed by the terms of the Subsidiary Loan Agreement, cause St. Petersburg to assist in the preparation of the report referred to in Section 9.07 (c) of the General Conditions, as said Section 9.07 (c) is amended pursuant to Section 1.01 (f) of this Agreement, and to provide all information in respect of the Program which may be required for the preparation of such report.

Section 4.02. The Borrower shall, promptly after each disbursement of Loan proceeds under Category (6) of the table in paragraph 1 of Schedule 1 to this Agreement, disburse to St. Petersburg funds in local currency equivalent to the respective amounts of each such disbursement. Such disbursement to St. Petersburg shall take place according to the terms of an agreement to be entered into between the Borrower and St. Petersburg satisfactory to the Bank (the Subsidiary Loan Agreement), whereby the Borrower agrees to lend to St. Petersburg funds in local currency in amounts equivalent to the amounts of the Loan disbursed by the Bank.
Section 4.03. Upon the Bank’s request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank’s request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE V

Financial Covenants

Section 5.01. (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, and adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause FISP to:

(i) have its records, accounts and financial statements (balance sheets, statements of sources and uses of funds, statements of income and expenses, and related statements) 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, 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 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 statements of expenditure, the Borrower shall cause FISP to:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank’s representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

(d) the Borrower shall cause FISP to:

(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 expenditures 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 5.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Parts B and D of Schedule 6 to this Agreement, the Borrower shall cause FISP to prepare and 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 and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; 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 forty five (45) days after the end of the first 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 calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar semester.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out;
(b) FISP shall have failed to perform any of its obligations under the Agency Agreement;

(c) St. Petersburg shall have failed to perform any of its obligations under the Subsidiary Loan Agreement; and

(d) The Agency Agreement or the Project Operational Manual, or any provision thereof, shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Borrower to carry out the Project.

Section 6.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified, namely: any of the events specified in Section 5.01, (b), (c) or (d) 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 VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Agency Agreement has been entered into between the MOF, MOCMC and FISP;

(b) a revised FISP charter satisfactory to the Bank shall have been adopted; and members of FISP’s supervisory board shall have been appointed, satisfactory to the Bank;

(c) appointment of the Inter-ministerial Grant Evaluation Committee members;

(d) the Project Operational Manual, satisfactory to the Bank, has been adopted by the FISP supervisory board; and

(e) the Subsidiary Loan Agreement has been entered into.
Section 7.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Finance or authorized Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
of the Russian Federation  
Ilyinka Street 9  
103097 Moscow  
Russian Federation

Telex: Facsimile:

112008 (7-095) 925-0889

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

RUSSIAN FEDERATION

By /s/ Alexander Sergeevich Sokolov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kristalina I. Georgieva

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works under Part A of the Project</td>
<td>45,860,000</td>
<td>49%</td>
</tr>
<tr>
<td>(2) Consultants’ services under Parts C and D of the Project</td>
<td>4,730,000</td>
<td>87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms</td>
</tr>
<tr>
<td>(3) CIF Grants under Part B of the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Goods and works financed under CIF Sub-projects</td>
<td>5,130,000</td>
<td>80%</td>
</tr>
<tr>
<td>(b) Consultants’ services financed under CIF Sub-projects</td>
<td>700,000</td>
<td>87% of individual consultants; 100% of eligible social charges; 79% of expenditures on consulting firms</td>
</tr>
<tr>
<td>(4) Operating costs</td>
<td>3,000,000</td>
<td>87% for salaries; 100% for social charges; 100% for training; 84% of other costs</td>
</tr>
</tbody>
</table>
(5) Training under Part C of the Project 70,000 100%

(6) Portion of the Loan in support of the Program, referred to in Section 2.03 (a) of this Agreement

(a) Tranche I 40,000,000 100%
(b) Tranche II 60,000,000 100%

(7) Fee 1,610,000 100%

TOTAL 161,100,000

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “Operating Costs” means reasonable incremental costs associated with the administration of the FISP, including: staff salaries, training, including study tours and seminars, social charges, office rent, maintenance and minor refurbishing of office and equipment, office equipment, furniture, materials and supplies, communication costs, support for information systems, translation expenses, bank charges, and travel and per diem costs of FISP staff directly associated with implementation of Project activities; and

(d) the term “Training” means Project related costs and expenses related to study tours, seminars, workshops and other training activities not included under a goods or service provider’s contract, travel and per diem costs for the ministries, administrations, and other relevant bodies on the federal and/or regional levels involved in the implementation of the Project.

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, except that withdrawals in an aggregate amount not exceeding the equivalent of
$1,200,000 may be made in respect of Category (4) (Operating Costs) set forth in the table in paragraph 1 of this Schedule on account of payments made before that date but after June 1, 2003.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures 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; (d) all training; and (e) all operating costs, under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. Notwithstanding the provisions of paragraph 1 above:

(a) no withdrawal shall be made from the Loan Account under Category (6) (a) of the table set forth in paragraph 1 of this Schedule, unless the Bank shall be satisfied, after an exchange of views as described in Section 4.01 of this Agreement, based on evidence satisfactory to the Bank that:

(i) the macroeconomic policy framework of the Borrower and St. Petersburg is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank;

(ii) St. Petersburg has achieved progress satisfactory to the Bank in the carrying out of the Program; and

(iii) that the actions described in Part A of Schedule 4 to this Agreement have been taken.

(b) no withdrawal shall be made from the Loan Account under Category (6) (b) of the table set forth in paragraph 1 of this Schedule, unless the Bank shall be satisfied, after an exchange of views as described in Section 4.01 of this Agreement, based on evidence satisfactory to the Bank, that:

(i) the macroeconomic policy framework of the Borrower and St. Petersburg is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank;

(ii) St. Petersburg has achieved progress satisfactory to the Bank in the carrying out of the Program; and
(iii) that the actions described in Part B of Schedule 4 to this Agreement have been taken.

6. (a) If, after the exchange of views referred to in paragraph 5 (a) above, the Bank shall have given notice to the Borrower that the requirements of subparagraphs (a) (i) and (a) (ii) of paragraph 5 above, or the actions taken under subparagraph (a) (iii) of paragraph 5 above, are not satisfactory and, within ninety (90) days after such notice, the Borrower and St. Petersburg shall not have met the requirements of said subparagraphs (a) (i) and (a) (ii), or taken the actions under subparagraph (a) (iii) of paragraph 5 above, then the Bank may, by notice to the Borrower, cancel the amount of the Loan allocated to Category (6) of the table set forth in paragraph 1 of this Schedule 1.

(b) If, after the exchange of views referred to in paragraph 5 (b) above, the Bank shall have given notice to the Borrower that the requirements of subparagraphs (b) (i) and (b) (ii) of paragraph 5 above, or the actions taken under subparagraph (b) (iii) of paragraph 5 above, are not satisfactory and, within ninety (90) days after such notice, the Borrower and St. Petersburg shall not have met the requirements of said subparagraphs (b) (i) and (b) (ii), or taken the actions under subparagraph (b) (iii) of paragraph 5 above, then the Bank may, by notice to the Borrower, cancel the amount of the Loan allocated to Category (6) (b) of the table set forth in paragraph 1 of this Schedule 1.

7. Notwithstanding the provisions of paragraph 1 above, and for the purposes of Section 2.03 (c) of this Agreement, the proceeds of the Loan allocated to Category (6) shall not be used to finance any of the following expenditures:

(a) expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall not be excluded;

(b) expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;

(c) expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:
<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>-</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
(d) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(e) expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

(f) expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories, or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(g) expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.
SCHEDULE 2

Description of the Project

The objectives of the Project are to support St. Petersburg’s efforts to accelerate the implementation of key elements of its Strategic Plan, in particular by rehabilitation and restoration of certain outstanding cultural monuments under federal jurisdiction, enhance St. Petersburg’s prospects for sustainable economic growth, and allow it to more fully exploit its position as Russia’s “Window to the West,” in particular, by enabling St. Petersburg to take greater advantage of its unique position as one of Russia’s top centers of culture and the arts and create the basis for developing tourism as a key element of future economic growth.

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: Rehabilitation of Cultural Assets in St. Petersburg

Repair and/or rehabilitation works for:

1. State Hermitage Museum, consisting of repair and rehabilitation and restoration works in the East Wing of the General Staff Building;

2. State Mariinsky Theatre, consisting of repair and/or replacement of internal utility networks in the existing building, replacement of stage machinery and rehabilitation of stage area, restoration of main hall, and upgrading of commercial services areas;

3. State Russian Museum, consisting of rehabilitation of two inner courtyards in the Mikhailovsky Palace, restoration of the Winter Garden in the Marble Palace, and restoration of the St. George Hall and rehabilitation of two Corp-de-Gardes in the Mikhailovsky Palace;

4. Peter and Paul Fortress Museum, consisting of repair of drainage and other utility networks, water isolation of buildings, and restoration of pathways;

5. State Shostakovich Philharmonic Academy, consisting of restoration of various rooms, replacement of lighting, air-conditioning, and sound systems, and repair of other internal utility networks;

6. State Rimski-Korsakov Conservatory, consisting of rehabilitation and restoration of the English Church;
7. Tsarskoye Selo Palace State Museum, consisting of rehabilitation and restoration of the Hermitage Kitchen and Turkish Baths, and restoration of bridges; and

8. Pavlovsk Palace State Museum, consisting of restoration of the Temple of Friendship.

Part B: Cultural Investment Facility

Provision of CIF Grants to cultural institutions in, and in the vicinity of, St. Petersburg for selected CIF Sub-projects involving small-scale investments and institutional strengthening activities.

Part C: Institutional Strengthening

Provision of technical assistance including consulting services and staff training, to the State Mariinsky Theater and the State Russian Museum, with a view to improving the institutions’ capacity to: (i) carry out financial management including budgeting, accounting, and planning in accordance with international standards; and (ii) improve marketing and business development.

Part D: Project Implementation

1. Provision of support to FISP consisting of incremental operating costs during Project implementation;

2. Completion of design studies required for the implementation of works for the existing buildings of the State Mariinsky Theater and the East Wing of the General Staff Building of the State Hermitage Museum; and

3. Provision of services of technical specialists for specific aspects of project supervision, including technical expertise in rehabilitation of historic buildings.

* * *

The Project is expected to be completed by February 28, 2009.
## SCHEDULE 3

### Amortization Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (Expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15</td>
<td></td>
</tr>
<tr>
<td>beginning October 15, 2008 through October 15, 2019</td>
<td>6,715,000</td>
</tr>
<tr>
<td>On April 15, 2020</td>
<td>6,655,000</td>
</tr>
</tbody>
</table>
SCHEDULE 4

Part A.  Actions referred to in paragraph 5 (a) of Schedule 1 to this Agreement

1.  St. Petersburg has adopted measures providing for simplification of regulations for establishment of small and medium enterprises and streamlining of activities of controlling bodies of executive power and local government agencies so as to reduce barriers to the development of small and medium enterprises.

2.  St. Petersburg has adopted measures providing for reform of the business licensing regime by: (a) completing the process of bringing the St. Petersburg regulatory framework in line with the federal laws on licensing, including amendment to Order No. 89-p of the Licensing Chamber of St. Petersburg of March 30, 2001; and (b) preventing the St. Petersburg Licensing Chamber from subdividing licensed activities within the list of licensed activities.


4.  St. Petersburg has adopted a price schedule for prices on privatization of occupied land which has achieved a reduction in average prices charged for privatization by 25% from normative prices in effect in 2001.

5.  St. Petersburg implemented its program for divestiture of city-owned premises through competitive auction by offering at least 150 premises for sale in 2002.

6.  St. Petersburg has: (i) adhered to prudential limits for aggregative fiscal performance under City and federal legislation and budget targets for 2003; and (ii) adopted a financial plan for 2003-2005 satisfactory to the Bank.

7.  St. Petersburg has implemented measures for fiscal management reform in 2003 satisfactory to the Bank.

8.  St. Petersburg has adopted regulatory measures establishing a clear legal right of access by independent generating enterprises to St. Petersburg’s electricity networks of energy suppliers.
Part B. Actions referred to in paragraph 5 (b) of Schedule 1 to this Agreement

1. St. Petersburg has carried out a program of reducing, through divestiture or other means, the overall number of City-owned or City-controlled commercial enterprises, including but not limited to the State Unitary Enterprises (SUEs) enumerated in the City Administration’s Order “On Optimizing the Number of St. Petersburg State Unitary Enterprises.”

2. St. Petersburg has: (i) adhered to prudential limits for aggregative fiscal performance under City and federal legislation and budget targets for 2003; and (ii) adopted a financial plan for 2004-2006 satisfactory to the Bank.

3. St. Petersburg has implemented measures for fiscal management reform in 2003 satisfactory to the Bank.

4. St. Petersburg has established a legal framework for expansion of the program of trust management satisfactory to the Bank.

5. Inventory of City-owned buildings and premises has been completed.

6. St. Petersburg has implemented a reporting system that reflects revenue losses from rent concessions, including concessions for premises and land rents.

7. St. Petersburg has: (a) implemented legislation to: (i) eliminate, under a time-bound schedule by the end of the Program, all City-provided fiscal and financial subsidies to commercial enterprises; and (ii) freeze or decrease over the duration of this Program the number of tax concessions (with respect to property, profit, income, sales or other business taxes) made to commercial enterprises; and (b) ensured that any remaining subsidies, subventions or tax concessions provided are on a fully competitive basis without any discrimination of concession recipients by the form of ownership.

8. St. Petersburg has achieved, in implementation of its program of reducing the rent reduction coefficient for City-owned premises, a 15% decrease in estimated lost rent revenue year-to-year over the 2002 base line of $24 million equivalent per quarter.

9. St. Petersburg has increased average effective land rents for City-owned land plots by 7.5% over the 2002 base line of $40 per square meter.

10. St. Petersburg has published independently audited financial accounts, developed in accordance with International Accounting Standards, for the year 2002, for Lenenergo,
TEK, Kurotenergo, PES, St. Petersburg Elektroseti, Gorodskoye Gazovoye Khozyaistvo
Lengaz, Fuel and Energy Complex of St. Petersburg.
SCHEDULE 5

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, 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 and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

   (a) Prequalification

      Bidders for works under contracts estimated to cost more than $4,000,000 equivalent shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

   (b) Grouping of contracts

      To the extent practicable, contracts for goods and works shall be grouped in bid packages estimated to cost $100,000 equivalent or more each.

   (c) Preference for domestically manufactured goods

      The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.
Part C: Other Procurement Procedures

1. National Competitive Bidding

Works, which are estimated to cost less than $4,000,000 equivalent per contract, up to an aggregate amount not to exceed $18,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, subject to the modifications agreed with the Borrower attached as Annex 1 to this Schedule.

2. International Shopping

Goods under Part B of the Project estimated to cost less than $100,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods under Part B of the Project estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Minor Works

Works under Part B of the Project estimated to cost less than $100,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

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**

   (a) With respect to each contract for goods and works to be procured in accordance with the procedures referred to in B and C.1 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

   (b) With respect to the first two contracts for goods and works to be procured in accordance with the procedures referred to in each of C.2, C.3 and C.4 above, the following procedures shall apply:

   (i) prior to the selection of any supplier under shopping procedures or contractor under small works procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; and

   (ii) 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 of 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.
2. In respect of consultants’ services to be procured under contracts awarded in accordance with the provisions of Part B of this Section, the short list of consultants for services for contracts estimated to cost less than $200,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 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, 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

Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, estimated to cost less than $500,000 in the aggregate, may, with the agreement of the Bank, be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated as necessary during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of $100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.
(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of $50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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.
Mandatory Provisions for Procurement under Bank-Financed Contracts Subject to National Competitive Bidding

Contracts for goods or works for which Schedule 5 to the Loan Agreement allows procurement under paragraphs 3.3 and 3.4 of the Procurement Guidelines may be procured in accordance with the provisions of national laws and regulations. In order to assure economy, efficiency, transparency and broad consistency with the provisions in Section I of the Procurement Guidelines, the national procurement provisions shall be modified as set forth in the following paragraphs.

Eligibility

1. No restrictions in respect of eligibility to participate in bidding for contracts shall be placed on the basis of nationality of bidder and/or origin of goods other than those imposed by primary boycotts.

2. Eligibility for foreign firms to participate in bidding shall not be based on requirements to joint-venture with national firms.

3. Bidders shall only be required to register for bidding provided that registration requirements and process are simple and non-discriminatory and otherwise qualified foreign bidders are not excluded from participating.

4. No preference shall be accorded bidders on the basis of place of registration, ownership, small size, ownership, etc. No restrictions shall be imposed in terms of source of labor, material or equipment.

5. Government-owned entities shall be eligible to participate in bidding for contracts if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependant agency of the purchaser or the contractor.

Standard Bidding Documents

6. Until a modified version of the Borrower’s standard bidding document has been approved for use by the Bank, the Bank’s own standard bidding document shall be used.
Advertising bidding opportunities; time for bid preparation

7. Bidding opportunities shall be advertised in national press of wide circulation. Prospective bidders shall be allowed at least thirty (30) days for bid preparation and submission of bids (excepting contracts for readily available off-the-shelf goods, standard specification commodities or small value works).

8. Minimum experience, technical and financial requirements (for pre- or post-qualification) shall be explicitly stated in the bidding documents.

9. The opportunity to pre-qualify for procurement involving large or complex contracts shall be advertised.

10. Qualification criteria shall be clearly specified in bidding documents and only criteria so specified shall be used to determine whether a bidder is qualified to bid. Bids by bidders which are deemed not qualified to bid shall not be considered further and shall be rejected.

Bid opening

11. Bids shall be opened immediately after the deadline for bid submission and in the presence of bidders who wish to attend. Bids received after the deadline shall not be considered and shall be returned unopened.

Rebidding

12. Rebidding shall not necessarily be required if only one bid has been received provided that the bid received is responsive, bid price is acceptable and bidder is deemed capable of performing the contract.

Bid evaluation

13. Evaluation criteria shall be clearly specified in the bidding documents and evaluation criteria other than price shall be expressed in monetary terms. Only criteria so specified shall be used in bid evaluation. Merit points shall not be used in evaluation of bids for goods and works contracts.

14. Bid evaluation shall be confidential and bidders shall not be allowed to be present during evaluation. No information relating to the evaluation shall be disclosed to any bidder until the successful bidder has been notified of contract award.
15. Bids containing material deviations from technical specifications and/or material reservations to the terms or conditions of the bidding documents shall be rejected as “substantially not responsive”. Bidders shall not be requested or permitted to withdraw material deviations or reservations once bids have been opened.

16. Evaluations shall be made in strict adherence to the criteria specified in the bid documents and no other criteria than those specified in the bidding documents shall be applied. Contract shall be awarded to the lowest evaluated qualified and responsive bidder.

17. There shall be no negotiations of price or substance with “winning” bidders prior to contract award or signature.
SCHEDULE 6

Implementation Program

A. Management and Implementation of the Overall Program and Various Project Components

1. MOCMC shall be responsible for overall management and implementation of the Project.

2. St. Petersburg shall maintain the St. Petersburg Working Group, chaired by the Governor of St. Petersburg, and comprising representatives of the Committees of Construction, Economic Development, Finance, and Property of the City of St. Petersburg, which shall be responsible for overall coordination of the Program, and ensuring timely approval of measures, actions, and policies related to the Program.

3. FISP shall be responsible for day-to-day project management and implementation, and shall also be responsible for financial management, disbursement, procurement, and preparation of progress reports and annual work programs in respect of the Project.

4. The Borrower shall ensure that, until the completion of the Project, MOCMC, FISP and the St. Petersburg Working Group at all times function in a manner, and with staff, consultants, facilities and other resources necessary for the management and implementation of the Program and the Project, satisfactory to the Bank.

5. For the purposes of funding local expenditures under the Project, the Borrower shall, through MOCMC: (i) not later than August 1, 2003, open a separate account (the Project Account) in a commercial bank on terms and conditions acceptable to the Bank with an initial deposit equivalent to $100,000; (ii) thereafter maintain and replenish said account at the beginning of each month to ensure that adequate funds, as deemed necessary by the Bank, are available to meet the expected local expenditures for the next month; and (iii) use the funds so deposited on said account exclusively for financing the implementation of the Project.

6. The Borrower undertakes to complete the works commenced on the Castle Square and Theater Square as part of the Project in conjunction with the planned works on Mariinsky Theater and Hermitage Museum.
7. The Borrower shall ensure the carrying out of technical review and approval of construction plans and documents for the works under Parts A and B of the Project in accordance with the requirements of Russian legislation.

8. For purposes of Part B of the Project, the Borrower shall ensure: (i) selection and approval of cultural institutions in accordance with eligibility criteria and approval procedures set forth in the Project Operational Manual, acceptable to the Bank; and (ii) conclusion of a grant agreement or other arrangements between FISP and the recipient cultural institution containing terms and conditions specified under the Project Operational Manual satisfactory to the Bank.

B. Annual Reports and Work Program

The Borrower shall cause FISP to provide to the Bank, on or about October 31 of each year throughout the execution of the Project, an annual report on the progress of Project implementation, of such scope and in such detail as the Bank shall reasonably request, including a draft annual work program for the following year.

C. 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 in the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

D. Monitoring and Evaluation

1. The Borrower shall:

   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an annual basis, in accordance with indicators acceptable 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 July 1, 2006, 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;
(c) review with the Bank, by October 1, 2006, 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; and

(d) cause FISP to submit to the Bank on a quarterly basis project progress reports for its review and approval.
SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1) through (4) 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, works, services and operating costs 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 the amount of $6,000,000 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 the amount of $3,000,000 until the aggregate amount of withdrawals from the Loan Account, 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 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 Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the 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 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 Special Account such amount or amounts as the Borrower shall have requested.

   (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the 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 5.01 (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, 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 any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special 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.