

Implementation Procedures **for Part B of the Sustainable Forestry Pilot Project**

1. Introduction

Part B of the Sustainable Forestry Pilot Project (the Pilot Project) is implemented pursuant to Resolution No. 340 dated May 27, 2005, of the Government of the Russian Federation, and Loan Agreement with the IBRD No. 4552-RU dated March 30, 2001, and the Amendments thereto dated June 21, 2005.

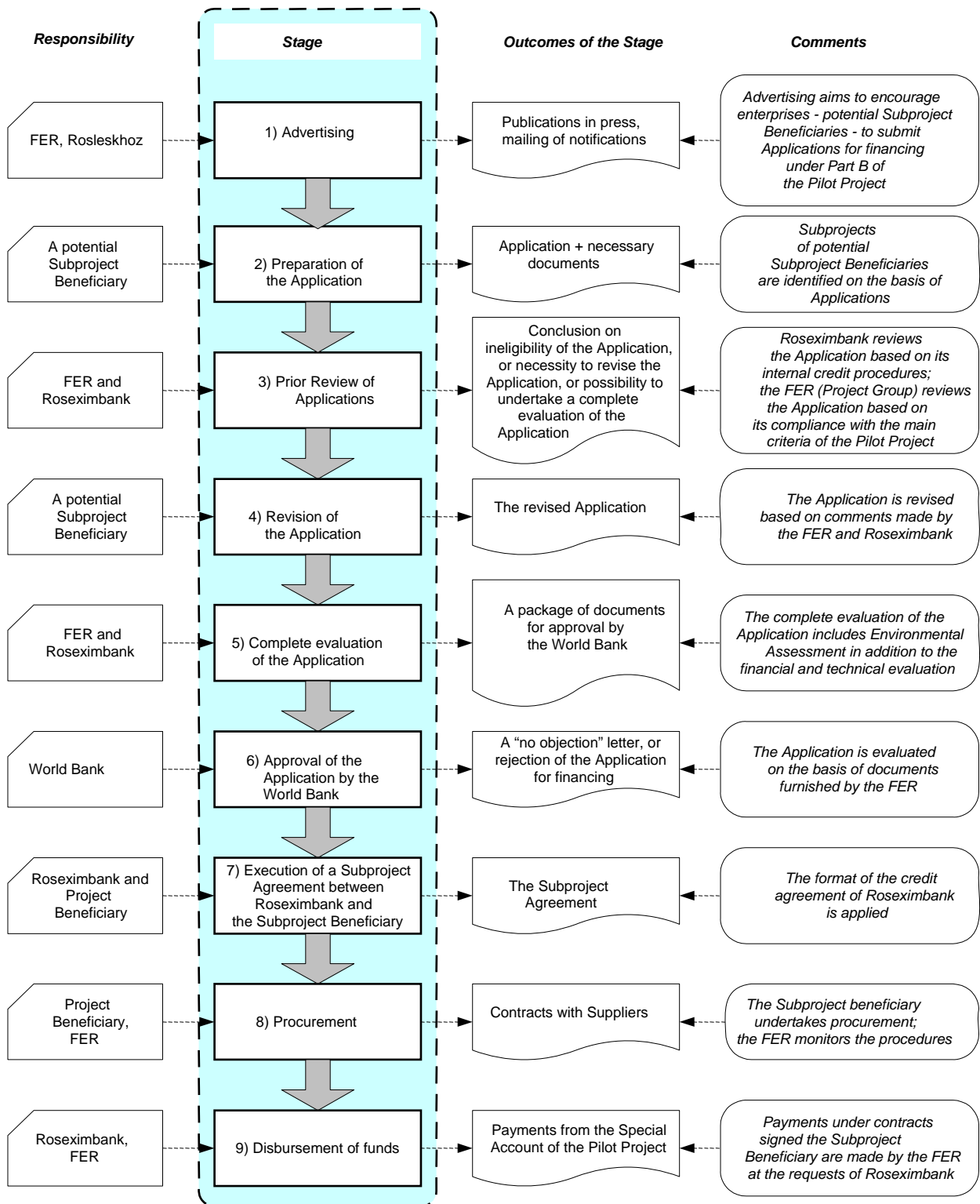
Part B of the Sustainable Forestry Pilot Project aims to improve and modernize the technical and human potential of forest enterprises and to encourage them to implement environmentally sound and more efficient timber harvesting and utilization technologies. Participating enterprises will obtain equipment intended for the production and utilization of timber as well as personnel training.

The proposed implementation scheme is similar to the scheme that was successfully applied within the framework of the Environmental Management Project and the Enterprise Support Project, both implemented jointly with the IBRD.

Following this scheme, the MOF enters into the Subsidiary Loan Agreement with the State Specialized Russian Export-Import Bank (Rosximbank), a commercial bank with the majority share of the state assets, acting as an authorized agent bank. Rosximbank reviews Applications and business plans submitted by forest sector enterprises interested in the attraction of credit resources, and enters into Subproject Agreements to finance the procurement of specialized machinery, equipment and associated services. The procurement activities should meet the requirements of the State Ecological Expertise (State Environmental Review) and the environmental requirements of the IBRD confirmed by a relevant expert examination. In regard to the disbursement of funds, Rosximbank and the FER, acting as the Pilot Project implementation group which shall review Rosximbank's Applications, ensure monitoring of eligibility of expenditures by the forest sector enterprises.

2. Major Stages of Implementing Subprojects by Forest Sector Enterprises

Major stages of implementing Subprojects by forest sector enterprises under Part B of the Sustainable Forestry Pilot Project are presented in the flow chart below.



A detailed description of each of the stages and procedures of interaction among the parties is given in the sections below. 130

3. Advertising

The FER, Rosleskhoz and Roseximbank shall arrange for advertising to attract potential Subproject Beneficiaries through:

- (1) publications in mass media (*Lesnaya Gazeta*, regional periodicals, and the bulletin *Konkursnye Torgi*);
- (2) publications in electronic media (including a brief description of the Pilot Project, the basic selection criteria, and the format of the Application to be posted on the web sites of the FER and Roseximbank);
- (3) direct mailing of information to the addresses of the Administrations of the Participating Regions and territorial forestry agencies of Rosleskhoz.

4. Preparation of the Application

Subprojects are identified on the basis of Applications prepared in three copies and submitted by potential Subproject Beneficiaries to Roseximbank (1 copy) and the FER (2 copies). The Application should include:

- a written Application for allocating the proceeds of the Loan enclosing the following information necessary for the evaluation of the proposed Subproject:
- a Business Plan that should include, *inter alia*, the following:
 - projected financial indicators of the Subproject;
 - "historical" financial statements of the potential Subproject Beneficiary; current data on the principal owners and guarantors of the enterprise;
 - information on the environmental impacts;
 - information on the procurement practices; and
 - information on the proposed forms of collateral.
- other enclosed documents necessary for the evaluation of the Application;
- a list of documents, available but not included in the Application package.

(See the Application format in Annex 1 hereto).

Business Plan

This document presents a detailed description of the overall business strategy of the enterprise. It should reflect the conformity of the strategic development objectives of the enterprise with the main objectives of the Pilot Project relating to institutional strengthening of forest enterprises in the area of environmentally, economically and socially sustainable forest use, and contain a projection of the financial indicators of the Subproject and proposals on the guarantees for the repayment of the received Subloan proceeds. A potential Subproject Beneficiary may submit an already existing business plan to receive financing for the proposed Subproject, or develop a business plan in accordance with the recommended format (see Annex 1 hereto). In either case the submitted business plan and additional information should contain all the data necessary for the complete evaluation of the Application.

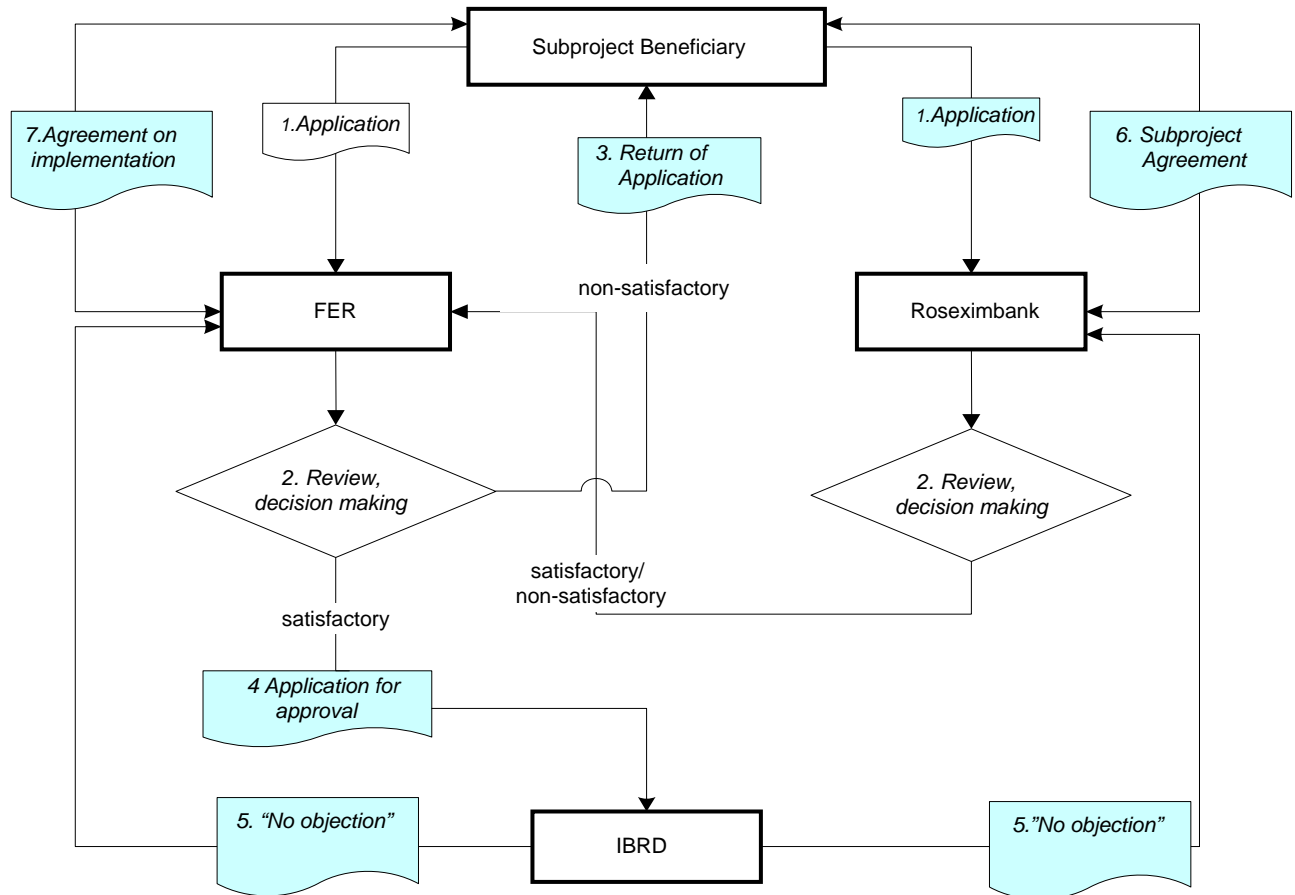
Permits and Other Legal Documents

Normally, it is not necessary to furnish to the FER and Roseximbank copies of these documents; it is sufficient to list them in the text of the Application.

5. Process of Application Review

Review of Applications submitted by potential Subproject Beneficiaries prior to furnishing the documents to the World Bank shall include three stages: (1) prior review, (2) revision of the Application, and (3) complete evaluation of the Application.

See the flow chart below:



6. Prior Review of the Application

Submitted Applications are subject to prior review by Roseximbank and the FER. The evaluation addresses the completeness of presented information and its consistency with the procedures of Part B of the Pilot Project, as well as the conformity of the Subproject proposed by a potential Subproject Beneficiary with the following basic selection criteria established for Part B of the Sustainable Forestry Pilot Project.

Subprojects eligible for financing should meet all of the requirements listed below:

- consistency with the objectives and goals of the Pilot Project related to sustainable forestry, including the objectives to improve and modernize the technical and human potential of forest enterprises and encourage them to implement environmentally sound and more efficient timber harvesting and utilization technologies.
- capital investments and a single-time increase of the working capital related to investments in fixed assets;
- long-term subprojects with a complete package of documents, pursuant to these Procedures, including, *inter alia*, a business plan and financial information;

- revision and approval of Subprojects by Roseximbank;
- consistency with the effective environmental legislation and regulations of the Russian Federation, and environmental requirements and the World Bank's Operational Policies, including *Forests* (OP/BP 4.36); *Environmental Assessment* (OP/BP/GP 4.01); and *Natural Habitats* (OP 4.04);
- application of procurement and disbursement procedures consistent with the World Bank's requirements.

Subprojects which fall under at least one of the criteria below are ineligible for financing:

- Subprojects should meet all the foregoing eligibility requirements for financing. Subprojects which fail to meet one or several eligibility criteria are deemed ineligible;
- Subloans for refinancing current debts. However, it shall be possible to refund the expenditures made by the Subproject Beneficiary not earlier than ninety (90) days prior to furnishing to the FER and Roseximbank of the Application for approval and financing of the Subloan. This means that the Borrowing Enterprise may be reimbursed for payments already made on account of implementing the Subprojects provided that these Subprojects fully meet the requirements of the Pilot Project.

The World Bank has determined an *indicative list of technologies* to be financed under Part B in accordance with the concept of sustainable forest use (see below). The list is non-exhaustive, and other technologies may also be found eligible for financing provided that they meet the objectives of the Pilot Project:

- (i) improved primary wood processing technologies reducing wastes of raw wood, such as processing lines for small diameter wood which reduce the volume of slash left at the harvesting site;
- (ii) technologies that utilize wood wastes, such as heat and/or power plants/regenerators which use sawdust and bark as fuel;
- (iii) improved large-wheeled harvesting equipment, which helps reduce soil damage in the process of harvesting and facilitates thinning operations consistent with good management practices (such technologies are subject to confirmation by an acceptable process of voluntary third-party certification of forest management);
- (iv) processing of non-wood forest products;
- (v) other technologies which are consistent with the concept of sustainable forest management.

In the process of Application review Roseximbank shall focus its attention on the description of the potential Project Beneficiary, the nature of the proposed Subproject, and financial/analytical information incorporated in the business plan. The FER shall focus on the procurement data and review of the Subproject's compliance with the objectives of the Pilot Project and requirements of the World Bank.

Prior review may result in one of the following solutions:

- (1) the Application is found ineligible due to its non-compliance with the basic principles of Part B of the Pilot Project and impossibility of its improvement, or
- (2) the potential Subproject Beneficiary should revise and improve the Application, or
- (3) it is possible to turn to a complete and detailed evaluation of the Application.

Roseximbank and the FER shall communicate the results of prior review of the Application with regard to its respective aspects to the potential Subproject Beneficiary.

7. Revision of the Application

This stage of the project cycle is optional. It shall occur if shortcomings that have been revealed in the process of prior review of the Application by Roseximbank and/or the FER do not enable to start the complete evaluation of the Application. In such case a decision shall be made to revise the Application, and the FER shall notify the potential Subproject Beneficiary thereof. Based on comments made by Roseximbank and the FER and communicated to the potential Subproject Beneficiary, the enterprise should promptly revise the Application. After the Application has been revised, the potential Subproject Beneficiary shall either furnish the revised version of the complete Application package, or submit missing documents/data comprising a portion of the Application revised in accordance with the comments.

If the revised documents are found satisfactory by Roseximbank and the FER, a decision is made to start the complete evaluation of the Application.

8. Complete Evaluation of the Application

If prior review has demonstrated that the submitted Application is consistent with the basic criteria of the Pilot Project, or if it has been appropriately revised to meet all the basic selection criteria of the Pilot Project, the FER and Roseximbank proceed to the complete evaluation of the Application. The complete evaluation of the Application includes an examination and detailed analysis of *financial and economic, legal, technical and environmental* aspects of the proposed Subproject.

Financial and Economic analysis shall be carried out by Roseximbank in accordance with its internal procedures and shall address the following:

- confirm the financial suitability of the proposed Subproject;
- analyze the risks associated with the Subproject;
- receive confirmation of timely repayment of the Subloan proceeds;
- examine the proposed co-financing schemes, including share purchasing by investors, export credits, and internal sources of funding;
- determine feasibility of the Subloan repayment under high inflation and growth in tariffs.

Legal analysis shall be carried out by Roseximbank and address the following:

- confirm the organizational and legal status of the organization represented by the potential Project Beneficiary;
- receive evidence that the enterprise is eligible to borrow and repay foreign currency loans;
- examine the proposed safety measures.

Technical analysis shall be carried out by the FER and address the following:

- confirm technical feasibility of the proposed Subproject and the fact that no experimental technologies will be applied thereunder (responsibility of the Project Consultant);
- establish whether the proposed timeframe is reasonable (responsibility of the Project Consultant);
- confirm the acceptability of the proposed procurement procedures (responsibility of the contractual department of the FER).

Environmental analysis shall be carried out by the environmental consultant hired by the FER and address the following:

- confirm that the proposed Subproject does not cause any adverse environmental and social impacts in the sites where it is implemented;
- confirm that the Subproject complies with the effective legislation and regulations relating to sustainable forestry;
- determine whether the proposed Subproject is consistent with the priorities set forth by the Pilot Project and meets the IBRD requirements.

See more details on the environmental assessment in Annex 4 to these Procedures.

Roseximbank shall inform the FER of the results of complete review of the Application.

If the complete analysis of the Subproject Beneficiary's Application carried out by Roseximbank and the FER has demonstrated that the proposed Subproject meets the basic selection criteria, a decision is made on possibility to finance the Subproject from the proceeds of the Loan under the Pilot Project. To endorse this decision, the FER shall submit the Application for approval by the IBRD with the purpose of including the proposed Subproject into the portfolio of projects to be financed from the proceeds of the Pilot Project.

9. Approval of the Application by the World Bank

The package of documents to be submitted by the FER for the World Bank's approval shall include the following:

- Subproject Beneficiary's Application with enclosed documents including the business plan and its summary;
- report prepared by the environmental consultant on compliance with the environmental requirements of the SEE and the World Bank;
- summary information on the principal terms and conditions of the Subproject Agreement between Roseximbank and the Subproject Beneficiary according to the following format:

- type of credit:	Non-revolving credit line
-credit line limit: (limit of expenses)	XXX million US Dollars
- credit use period:	until September 30, 2007
- credit repayment:	Paid in equal parts twice a year in the amount of XXX million Dollars, in five years starting from the third-fourth year following the effective date of the Subproject Agreement with the right to early repayment.
- interest rate:	XXX % годовых, уплата процентов два раза в год.
-commitment charge:	0,75% interest per annum, or any other actual rate (currently 0,25% per annum) established pursuant to the Subsidiary Loan Agreement between the MOF and ZAO Roseximbank on the amount of the credit funds not withdrawn accrued from the effective date of the Subproject Agreement until the end of the credit use period.
- penalties:	fine in the amount of XXX % per annum charged on the overdue amount of the principal with continued interest charge on the overdue amount of the principal; fine in the amount of XXX % per annum charged on the overdue amount of debt in payment of interest, credit fees and any other amounts to be paid to the lender by the borrowing enterprise.
- collateral:	Liquid pledges (technological equipment) at the market price in the amount of at least 120% of the credited amount to be disbursed and bank guarantees covering the unsecured amount.
- additional liabilities of the borrowing enterprise:	To extend ZAO Roseximbank the right of nonacceptance writing-off from the settlement account and current foreign currency (in US Dollars and/or Euros) accounts of the borrowing enterprise opened in ZAO Roseximbank or in other banks.
- documents and information submitted by the borrowing enterprise	<ol style="list-style-type: none"> 1. Application for providing a credit. 2. Information on the legal capacity of the enterprise. 3. Information on the financial and economic status of the enterprise (including the structure and dynamics of the working assets, structure of financial investments, structure of debit and credit indebtedness, structure and dynamics of liabilities). 4. Information on the credited enterprise. 5. Information on collateral.

After the World Bank has reviewed the foregoing documents and issued its “no objection”, it will furnish to the FER a letter of approval to finance the Subproject from the proceeds of the Loan. The letter shall be delivered by fax or by e-mail.

10. Execution of the Subproject Agreement between Roseximbank and the Subproject Beneficiary

Upon the receipt of the World Bank's letter of "no objection" to financing of the Subproject, the FER shall inform Roseximbank and the borrowing enterprise thereof. This letter shall enable Roseximbank and the borrowing enterprise to execute a Subproject Agreement on financing the Subproject from the proceeds of the World Bank Loan under the Pilot Project.

11. Execution of the Project Implementation Agreement between the FER and the Subproject Beneficiary

On, or promptly after execution of the Subproject Agreement, the FER and the borrowing enterprise shall enter into a Subproject Implementation Agreement which will regulate the relations of these organizations in the process of Subproject implementation.

12. Procurement

After the Subproject Agreement has been signed and become effective, the borrowing enterprise shall make contracts with suppliers. Contracts to be financed from the proceeds of the World Bank shall be made strictly in accordance with the procurement plan incorporated in the business plan. If necessary, the FER shall review requests from the Subproject Beneficiaries to change the procurement plans, in accordance with the terms set forth in the Loan Agreement and these Procedures, and give approval to such changes. In case of substantial changes that would transform the Subproject's structure in principle, the FER shall receive a prior approval from the World Bank.

Contracts in the total amount less than 2 million Dollars shall be awarded based on the established commercial practices applied by the Project Beneficiary. The Project Beneficiary should include in the application (or the presentation of a contract) a justification for selecting the Supplier to demonstrate compliance with the Project Beneficiary's procurement procedures which ensure economic efficiency of procurement. Normally, such procedures should provide for comparison of at least three offers submitted by potential suppliers.

In accordance with the IBRD terms and conditions, financing under the Pilot Project is carried out exclusively on the basis of agreements entered into between the borrowing enterprise and its suppliers. The borrowing enterprise shall furnish the agreements to the FER for the review as to their compliance with basic requirements to commercial agreements. The FER shall review the agreements and give its approval to the Subproject Beneficiary within five (5) working days. Requirements to the Agreements are set forth in Annex 2 to these Procedures. These requirements apply to agreements which provide for direct payment of expenditures to the suppliers. If the borrowing enterprise has made payments and received goods (works, or services) from a supplier independently, it does not have to submit the agreements for approval, but instead apply for reimbursement of expenditures incurred and provide documentary evidence of the procurement of goods (works, or services).

Procurement in the amount of more than 2 million Dollars is made based on the method of International Competitive Bidding (ICB). This method provides for a publication of a procurement notice in specialized international and Russian periodicals, elaboration of detailed technical requirements under the World Bank's standards, and preparation of bidding documents, in English, based on Standard Bidding Documents of the World Bank. These documents should be furnished by the borrowing enterprise to the FER for examination, and, if these documents meet the World Bank's requirements, a relevant approval shall be issued to the FER. Thereafter, the borrowing enterprise shall undertake open bidding in accordance with the World Bank Guidelines, for which purpose an evaluation committee shall be established to include representatives of the

FER (to monitor compliance with the World Bank procedures) and Roseximbank (to monitor the selection of the most efficient offer). The evaluation committee shall open submitted proposals and prepare an evaluation report following the IBRD requirements. The Project Beneficiary shall submit the report to the FER for further approval by the IBRD, after which the Project Beneficiary shall finalize the contract with the winning firm and furnish the contract to the FER. After the FER has confirmed that the contract is acceptable, it shall be signed by the parties, and a copy of the contract shall be furnished to the FER to be transferred to the World Bank. Taking into account the complexity of procurement procedures under International Competitive Bidding and necessity to follow the World Bank's requirements as closely as possible, the Subproject Beneficiaries are recommended to use services of specialized firms which have proven experience in conducting such works.

13. Disbursement

The proceeds of Loan No. 4552-RU under Part B of the Pilot Project shall be disbursed for payment/reimbursement of expenditures under contracts made with the borrowing enterprise pursuant to Section 12 above on the basis of withdrawal applications prepared and signed by the designated representatives of Roseximbank. For that purpose upon the effective date of the Subsidiary Loan Agreement with the Ministry of Finance, Roseximbank shall prepare and furnish to the FER a notarized card with the specimen signatures of the persons authorized on behalf of the bank to sign applications for the withdrawal of the proceeds of the Loan. In case any changes occur in the list of persons authorized to sign applications for the withdrawal of proceeds of the Loan, Roseximbank shall promptly notify the FER thereof and furnish a card with the specimen signatures of newly appointed authorized persons.

The proceeds of the Loan shall be disbursed according to one of the following two options:

Option 1: Payment. The FER shall transfer funds to Roseximbank from the Special Account of the Pilot Project. Roseximbank shall transfer credit funds to the account of the borrowing enterprise. The borrowing enterprise shall make payments to the suppliers and furnish payment supporting documents to Roseximbank. Roseximbank shall furnish said documents to the FER.

Option 2: Reimbursement. Roseximbank shall transfer credit funds to the account of the borrowing enterprise. The borrowing enterprise shall make payments to the suppliers and furnish payment supporting documents to Roseximbank. Roseximbank shall furnish the supporting documents to the FER. The FER shall reimburse Roseximbank in the amount of credited funds.

Since the World Bank does not finance taxes and duties levied on the territory of the Russian Federation, the borrowing enterprise is responsible for financing of said expenditures from its own proceeds and furnish supporting documents (payment orders confirmed by the bank, cargo customs declarations, etc) to provide evidence of payment thereof. Payments from the proceeds of the Loan shall be made only after the borrowing enterprise has paid, as co-financing, applicable taxes and duties.

For more details on the document flow in regard to both of the crediting options see Annex 3 to these Procedures.

14. Monitoring of Part B of the Pilot Project

In the process of Project implementation the FER and Project Consultants shall monitor procurement and disbursement practices, compliance with the environmental requirements and appropriate performance of reporting and auditing requirements under the Pilot Project.

15. Training and Dissemination of Experience of the Pilot Project

Upon completion of all subprojects under Part B of the Pilot Project each Pilot Region shall organize a seminar to discuss and disseminate experience gained through executed projects for representatives of the forest sector, regional executive bodies, and public organizations in a particular Pilot Region as well as other regions and representatives of the federal level.

Seminars should be organized by the Administrations of the Pilot Regions with coordination and assistance of the consultants from the Project Group. Seminar organizers shall share responsibilities as follows:

Administrations of the Participating Regions jointly with the Subproject Beneficiaries of the respective Region shall

- be responsible for the overall organization (determine the place, time, list of participants, and budget of expenditures; provide for logistical support; prepare handouts);
- develop a program (jointly with the consultants of the Project Group);
- invite seminar participants;

borrowing enterprise shall

- prepare and make a presentation of its Subproject;

Consultants of the Project Group shall:

- coordinate the organization and conducting of the seminar with the Administration of the Participating Region, Project Beneficiaries and other stakeholders;
- participate in developing of the seminar program and presentations outlines;
- prepare a draft decision of the seminar;
- prepare seminar materials for publication (jointly with the Administration of the Participating Region).

Technical assistance in the organization of the seminar shall be provided on account of the operational expenditures (Part C) of the FER (rental of the conference room and equipment, copying of handouts, coffee breaks, short-run publishing of the seminar materials).

Speakers invited to make presentations at the seminar shall represent specialists and experts acting as developers and efficient users of specific subprojects implemented in the Region as well as subprojects carried out under Part B in other Regions. The seminar materials shall be published in paper and electronic format.

**Annex 1 to Implementation Procedures
for Part B of the Sustainable Forestry Pilot Project**

On the letterhead of the borrowing enterprise

Date _____ No _____

To: Mr. N.V. Gavrilov
Chairman of the Board
State Specialized Russian Export-Import Bank
(or: to the authorized deputy chairman of the Board)

13/5, 3rd Neopalimovsky Pereulok bd. 1
119121 Moscow

To: Mr. M.P. Korolkov
Director General
Noncommercial Foundation for Enterprise Restructuring
and Financial Institutions Development

21 Malaya Kommunisticheskaya St.
109004 Moscow

**APPLICATION
FOR FINANCING FROM THE PROCEEDS OF THE IBRD LOAN
UNDER PART B OF THE SUSTAINABLE FORESTRY PILOT PROJECT**

Dear Ladies/Gentlemen,

We are hereby submitting an Application for financing the Subproject _____(name)_____ to be implemented under Part B of the Sustainable Forestry Pilot Project prepared by _____(name of the enterprise)_____ in the total amount of _____(to specify)_____. The amount of the Subproject to be financed from the credited funds of Roseximbank is \$ _____(to specify)_____. The enterprise has sufficient funds to finance the remaining part of the Subproject.

We confirm that the Application has been prepared in accordance with the Implementation Procedures for Part B of the Pilot Project.

We would request you to evaluate the Application and inform the _____(name of the enterprise)_____ regarding the eligibility of this Application or necessity to revise it indicating specific aspects which should be revised.

Enclosure: listed documents

Signature: _____

Signatory:

Position:

Seal

LIST OF DOCUMENTS: (Please, specify the documents enclosed with the Application):

Appendix I to the Application: Subproject Beneficiary’s Business Plan

The Subproject Beneficiary’s business plan should include, *inter alia*, the following:

- information on the principal owners and guarantors of the enterprise;
- information on the legal capacity of the enterprise;
- information on the financial and economic status of the enterprise;
- information on the Subproject, including projected financial indicators;
- information on the environmental impacts;
- information on the procurement practices; and
- information on the proposed forms of collateral.

See below a detailed outline of the Subproject Beneficiary’s Business Plan and description of its major sections.

Appendix II to the Application: Other Enclosed Documents

Appendix III to the Application: List of Available but Not Submitted Documents (*these documents may be requested by the FER or Roseximbank in the process of the evaluation or during the on-site inspection*) - permits, licenses, and other legal documents; documents relating to the environmental issues:

Appendix I to the Application

Business Plan of the Subproject Beneficiary (recommended outline)

The format and structure of the business plan may vary depending on the nature of the Subproject. The Subproject Beneficiary may prepare and submit a business plan following the outline given below, or present its own business plan taking into account that information presented below is required for the complete evaluation of the Application, consequently, it should be mandatorily either included in the business plan or submitted as separate documentation.

1. Summary
2. Company profile of the Subproject Beneficiary (general information, management and ownership, current commercial activities, etc)
3. Information on the company's principal owners and guarantors
4. Project description
5. Disbursement and procurement under the Subproject
6. Financial evaluation of the Subproject and "historical" financial statements
7. Relation to the government and local authorities
8. Information on the Subproject's compliance with the objectives of the Sustainable Forestry Pilot Project and the World Bank's requirements
9. Information on environmental impacts
10. Information on the proposed forms of collateral.

1. Summary

Objective: provide a general understanding of the borrowing enterprise and its proposed Subproject.

“Summary of the Subproject” is the only section of the business plan to be prepared by the borrowing enterprise in two languages, English and Russian. This section should reflect all key aspects of the proposed Subproject and operational activities of the borrowing enterprise according to the following format:

Structured Executive Summary of Proposed Subprojects (to be provided in Russian and English languages)

Full name of the company proposing Sub-project: _____

Location (address) of company headquarters: _____

Full name, position, contact information (including phone, fax and email) of the company's official representative for the sub-project: _____

Location of proposed investment (region/oblast, district/rayon, town): _____

Sub-project title: _____

Brief description of the sub-project and list of technologies it supports; how it meets sub-project selection criteria and objectives of Part B of the Sustainable Forestry Pilot Project (up to 100 words): _____

Sub-project structure and financing plan (in US\$'000 equivalent):

Investment components	WB sub-loan	Own funds	Other funds*	Total
1.				
2.				
...				
Total				

Availability of positive conclusion of the State Ecological Expertise for the above listed investments (dates and names of issuing authorities; if not available – current approval status):

If part of proposed investments is for harvesting equipment, does the company have certificates for forest management and chain-of-custody under an independent, internationally recognized voluntary forest certification system (name of system, date and name of issuing certification entity; if not available – current status of certification process):

Sub-project disbursement plan (in US\$'000 equivalent):

Source of funds	1Q 2006	2Q 2006	3Q 2006	4Q 2006	1Q 2007	2Q 2007	3Q 2007	Subtotal
WB sub-loan								
Own funds								
Other funds*								
Total								

* Explain sources of "Other Funds":

Expected sub-project impact (number of personnel that would undertake training/retraining in improved harvesting and/or processing technologies during implementation period):

# of trainees	2006	2007	2008	2009 and beyond (average per year)	Total
Staff from project site					
Staff from other locations					
Total					

How does your subproject (and/or your company) expect to benefit from interaction with policy development, information and training/dissemination activities under Part A of the Sustainable Forestry Pilot Project in your Participating Region? (up to 50 words)

2. Company Profile

Objective: to provide complete information on the borrowing enterprise, its management structure, nature of business, products produced, and current production.

General Information:

Company's legal name: _____

Year Established: _____

Year Registered: _____

Country Registered: _____

Form of registration: _____ (see coding after the table "Equity Capital Structure")

Current number of employees: _____

Expected increase in the number of employees in case of the Subproject approval: _____

Equity Capital Structure: indicate all co-owners holding 10% of shares or more:

Co-owner	% *	Co-owner:		
		form of registration **	country registered	share of the state %
Others (less than < 10% each)				
<i>Total:</i>	100%			

* Companies that hold 25% or more shares in co-ownership with the borrowing enterprise are requested to fill in additional information following the format below

** Coding: "S" – state-owned enterprise; "AO" – joint-stock company; "OOO" – limited liability company; "I" – physical person; "VF" – venture fund.

Part of the borrowing enterprise owned by the state or by structures belonging to the state _____.

Company's organizational structure, including top management and the Board of Directors

Top management of the borrowing enterprise:

Name	Position	Number of years in the company/sector
		yrs/ yrs
		yrs/ yrs
		yrs/ yrs

Board of Directors of the borrowing enterprise:

Name	Company or profession	Number of years on the Board
		yrs
		yrs
		yrs

Current Commercial Activities (brief description):

Products/services	Share of income, %

The following documents confirming the **legal capacity** of the borrowing enterprise should be submitted:

- 1) copies of the company's constituent documents;
 - 2) a copy of Certificate of the state registration of the company;
 - 3) a bank card with the specimen signatures of the officials authorized to make transactions from the company's account, and the imprint of the seal;
- If the company is not a client of Roseximbank, documents indicated in p. 1 through p.3 should be certified by a notary.*

- 4) copies of permits (licenses) to execute activities subject to licensing pursuant to the effective legislation, if the company indicates such activities as a source of income for credit repayment;
- 5) a certificate of registration in the tax inspection with the taxpayer's identification number (INN);
- 6) a letter from the State Statistics Committee (Goskomstat) on awarding statistical codes;
- 7) documents confirming powers of authorized persons to make deals and enter into relevant agreements; copies of decisions made by the company's management bodies on big deals as established by the effective legislation;
- 8) copies of administrative orders on appointing the officials designated in the bank card with the specimen signatures and the imprint of the seal;
- 9) information on the composition of the founders whose share in the charter capital exceeds 5% indicating their contribution (joint stock companies should submit an abstract from a register of shareholders);
- 10) information on affiliated and subsidiary companies, branches and representative offices (name, location, the company's shares in the charter capital of affiliated and subsidiary companies, opening dates of branches and representative offices);
- 11) copies of documents confirming the right to use (own) fixed assets (real estate objects and plots of land).

3. Information on the Principal Owners and Guarantors of the Enterprise

Objective: provide information on the main owners and guarantors of the company (if guarantee for Roseximbank's Subloan shall be collateral).

The following information should be submitted about the company's each (1) Co-owner who is a guarantor, (2) Co-owner who is not a guarantor, and (3) a Guarantor who is not a co-owner:

Company's legal name: _____

Year Established: _____

Year Registered: _____

Country Registered: _____

Form of registration: _____ (see coding after the table "Equity Capital Structure")

Equity Capital Structure: indicate all co-owners holding 10% of shares or more:

<i>Co-owner</i>	<i>%</i>	<i>Co-owner:</i>		
		<i>form of registration *</i>	<i>country registered</i>	<i>share of the state %</i>
Others (less than < 10% each)				
<i>Total:</i>	100%			

* Coding: "S" – state-owned enterprise; "AO" – joint-stock company; "OOO" – limited liability company; "I" – physical person; "VF" – venture fund

Current Commercial Activities (brief description):

<i>Products/services</i>	<i>Share of income, %</i>

Finance results: (audited: __ to indicate __)

Please, enclose financial records covering at least one reporting period (balance sheet, financial statements, and statements of funds flow)

<i>As of:</i>	<i>1 Jan 2004 (for year 2003) thousand rubles</i>	<i>1 Jan 20 05 for year 2004) thousand rubles</i>	<i>05(months.) thousand rubles</i>
1. Proceeds (net)			
2. Gross revenue/loss			
3. Profit (loss) from common activities			
4. Dividends paid			
5. Current share of long-term debt			
6. Current amortization			
7. Debt service			
8. Gross assets			
9. Intangible assets			
10. Total liabilities			
11. Equity capital (balance)			
12. Financial leverage (liabilities / tangible equity capital)			

Note: see comments on a similar section above.

<i>Biggest subsidiaries of the borrowing enterprise</i>	<i>%, owned by partner</i>	<i>Type of commercial activity</i>

4. Project Description

Objective: provide understanding of the Subproject proposed for financing by Roseximbank out of the Subloan proceeds

The business plan should cover the following essential aspects:

- Subproject objectives, major technical and economic outcomes expected to be achieved in the process of Subproject implementation (new goods and services; improved quality of goods and services; cost reduction, etc); brief justification for the Subproject's principal solutions;
- stages of Subproject implementation and estimated periods of execution; an extent to which the Subproject has been executed by the time of applying for financing (who initiated the Subproject and when, listing of activities executed under the Subproject, preparedness of Subproject documents);
- description of the sector to which the Subproject belongs: main technological characteristics of operations; significant companies operating in the sector, including those located in the same region with the borrowing enterprise; average indicators typical of similar enterprises in the sector (rate of profitability, structure of assets, structure of costs, period of asset turnover, etc);

- organizational scheme of Subproject implementation and its main stakeholders: names of organizations involved in the Subproject jointly with the borrowing enterprise; main functions of all Subproject stakeholders; terms of cooperation; documents confirming relevant arrangements with the Subproject stakeholders (copies of agreements, contracts, letters of intention, minutes of negotiations, etc); drafts of constituent documents of legal entities proposed to be established in order to perform certain functions related to Subproject implementation;

- construction and/or reconstruction under the Subproject: preparedness of construction documentation; availability of construction sites; overall budget for construction works and methodology of its determining; estimated period of carrying out construction works; method of construction (if non-contracted method of construction or/and reconstruction is employed, a copy of construction license has to be submitted); information on incompleting construction (startup date, amount of actual expenditures); projected suppliers of materials and services for construction works (names of organizations, types and volume of resources and services to be procured, procurement terms, documents confirming arrangements with suppliers and contractors);

- procurement of equipment under the Subproject: name and cost of items; names of suppliers; time and conditions of delivery and installation; documents confirming arrangements with suppliers of equipment; main technological characteristics of equipment (capacity, consumption of all types of resources, optimal operational mode, etc);

- production program of Subproject implementation: production schedule; activities relating to preparation for production (including obtaining of relevant permits and certificates) and their cost; stages of the production cycle; estimation of required resources and services for production of goods under the Subproject; sources of supplies, materials, components, accessories, and electric power (types of resources or services, suppliers, proximity to production site, volume, time and terms of procurement, terms of payment, documents confirming arrangements with suppliers);

- estimation of the cost of production and sales under the Subproject: estimation of the cost of goods (services), prices and tariffs on resources and services used for production; sources of information for determining prices and tariffs (statistical data, marketing research, etc); amount of overhead costs (manufacturing, general economic, commercial, and managerial) and methodology of cost absorption; types, rates, estimation methods and payment procedures of due taxes, levies, and mandatory budgetary payments (excise taxes, customs duties, etc); documents confirming tax benefits (provided that the company takes into account such benefits in estimating an overall amount of funds for credit repayment); forms of amortizations and rates of amortization charges; estimation of working capital needed at the stage of developing production and after reaching the rated capacity;

- estimation of revenues from sales of goods (services) under the Subproject: range of products and services; sales target in physical terms, projected markets and/or consumers, forms and structure of sales (wholesale, retail, private trade, dealer network, barter, etc), activities relating to sales preparation and their cost, price projection for goods (services); sources of information and methods of developing price projections (statistic data, conjuncture/marketing research, etc); estimation of revenues from sales of goods (services) in the process of Subproject implementation; documents confirming arrangements with suppliers).

5. Disbursement and Procurement under the Subproject

Objective: present initial documents and data for the Contractual Department of the FER; the section should provide understanding of the expenditures necessary for Subproject implementation, projected procurements and their compliance with the World Bank's procedures.

Major expenditures relating to Subproject implementation should be broken down by category, including, if necessary, breakdown into expenditures in foreign currency and Rubles.

It is necessary to indicate sources based on which expenditure estimates are made (tariffs or offers from suppliers/contractors, bidding results, valuator's appraisals, etc).

This section should contain a draft procurement plan, a list of projected contracts, and justification for the selection of commercial practice as a procurement method which should be prepared by the borrowing enterprise. It is preferable to have draft contracts with suppliers furnished to the FER for its review prior to submitting the Application or together with the Application. Signed contracts, acceptable for the FER and World Bank, should be submitted before credit payments are made.

The section shall also contain information on the procurement practices of the borrowing enterprise which should be confirmed by availability of certain procedures (regulations) aiming to ensure competitiveness and efficiency of procurement.

It is necessary to specify packaged expenditures under the Subproject:

	Total cost	To be financed from Roseximbank's Subloan	Procurement package*
<i>purchase of land</i>	\$		
<i>purchase of buildings</i>	\$		
construction or reconstruction of buildings	\$		
<i>purchase of equipment</i>	\$		
re-equipment	\$		
increase of working capital**	\$		
	\$		
	\$		
TOTAL:	\$		

* *Indicate the number of the procurement package as specified in the next table.*

** *Working capital: only continuous increase in supplies, materials and spare parts caused by higher level of production. You may apply to Roseximbank for credit resources separately, irrespective of the Pilot Project, in order to satisfy your needs in working capital.*

Procurement Plan: it is necessary to list projected contracts under the Subproject

Number of procurement package*	Contract type (goods/services, works) Description	Total contract cost	Amount in \$ to be financed by the Pilot Project**	Status ***	Procurement method (ICB, CP, SC)****	Country of potential supplier	Estimated date of contract	Projected schedule of payment by years and by quarters
1.								
2.								
3.								
4.								
5.								
6.								
	Total amount of contracts				= Total amount of Subloan to be financed under the Pilot Project			

* Write down the number of the procurement package from a respective row of the table above – Packaged Expenditures under the Subproject.

** Indicate the amount (in Dollars) projected to be financed under the Pilot Project.

*** Write “1” if the contract has already been signed; write “2” if the supplier has been selected but the contract has not been signed yet; write “3” if bidding has been carried out but the supplier has yet not been selected; write “4” if bidding has not yet been carried out.

**** ICB - International Competitive Bidding; CP – Commercial Practice; SC – Selection of Consultants. The procurement process should meet the World Bank’s requirements. Contracts for the procurement of goods and works in the amount of more than 2 million Dollars are made based on ICB and may be found unacceptable for financing during the final period of the Pilot Project (after October 1, 2006) due to lengthy procurement procedures. Contracts for providing consulting services require the Selection of Consultants. Contracts for the procurement of goods and works in the amount of less than 2 million Dollars may be made based on the established commercial practice of the enterprise provided that several commercial offers are considered.

Subproject’s Sources of Funding

Funds	Funds of the borrowing enterprise (not the Co-owner)	\$
New debt	Projected Subloan (under the Pilot Project)	
	Other new credits (list major new creditors below)	
New equity (sale of additional shares)	for current shareholders/partners (= 0 if the borrowing enterprise is a new company established for the purpose of Subproject implementation)	
	for new shareholders or partners, list those below	
	TOTAL (should be the same amount as the TOTAL of Expenditures under the Subproject):	

If new shares are sold, changes in the distribution of shares in the capital of the borrowing enterprise should be indicated.

6. Financial Evaluation of the Subproject and “Historical” Financial Statements

Objective: give financial justification for information presented in other sections; if necessary, provide different scenarios of Subproject implementation.

The Subproject Beneficiary’s business plan should include the financial analysis of the Subproject and estimates of its self-repayment and economic efficiency.

The Subproject’s financial characteristic should consist of:

- projected incomes coordinated with marketing analysis;
- analysis of projected production expenses including a forecast of potential changes;
- analysis of integral indicators of the Subproject’s efficiency estimated over the Subproject’s life cycle (for both, invested and equity capital):
 - Internal Rate of Return (IRR),
 - Net Present Value (NPV),
 - Payback Period (PBP),

- estimation parameters applied (discount rate, estimation horizon, with/without residual value cost, etc),
- analysis of previous financial statements of the borrowing enterprise (balance sheet, profit and loss report, statement of funds flow) and respective coefficients (liquidity ratio, net profit ratio, turnover rate, stability rate, etc).

If the Subproject is going to be implemented at an already existing enterprise (base production), it is necessary to carry out "with and without" analysis which should:

- take into account projected financial results (balance sheet, profit and loss report, statement of funds flow) and development indicators of the base production (liquidity ratio, solvency, profitability, etc) without activities provided by the Subproject;
- estimate the Subproject's impact on financial results and indicators of the base production over the whole estimation horizon;
- take into account funds accumulated in the base production together with attracted (borrowed) funds and internal sources (equity capital and cash flows generated by the Subproject) while determining sources of Subproject financing;
- indicate sources of Subproject financing: available financial liabilities on account of expenditures already incurred (type of liabilities, creditors, amount of credits and loans, period and conditions of repayment, interest rates, and collateral); projected sources of financing construction works, purchasing of equipment, preparatory activities for Subproject implementation (potential stakeholders and terms of financing); sources of financing needs in working capital (projected share of credited funds among sources of financing of working assets, potential creditors and terms of credits); documents confirming arrangements with investors.

The Application package should also include:

- 1) Annual and quarterly accounts of the enterprise covering the last three years (registered in tax inspection), including:
 - 1.1. Balance sheet (form No. 1);
 - 1.2. Profit and loss report (form No. 2);
 - 1.3. Statement of funds flow (form No. 3) (if available);
 - 1.4. Statement of funds flow (form No. 4) (if available);
 - 1.5. Annex to the balance sheet (form No. 5) (if available);
 - 1.6. Explanatory note to the annual accounts;
 - 1.7. Decoding of balance sheet items as of the most recent reporting date:
 - fixed assets: type of property, original cost and balance cost of property;
 - financial investments: type, amount, nominal value of securities, amount and conditions of extended credits and loans, placement of deposits and other financial instruments;
 - debit and credit indebtedness: list of major debtors and creditors (indicate non-residents) and the amount of indebtedness, time of its occurrence, time of its repayment and terms of payment (including data on overdue debts if available);
 - bank credits and other loans: list of creditors with the amount of credits and loans, terms of lending and repayment, interest rates and provided collateral;
 - 1.8. Auditing report confirming credibility of submitted accounts of the enterprise (provided that the enterprise is subject to mandatory audit pursuant to the effective legislation);
 - 1.9. Certificates from servicing banks to demonstrate:
 - the amount of funds credited monthly to the enterprise's current foreign currency, transit and settlement accounts during the current year and the preceding year;

- balance of settlement accounts and current foreign currency accounts of the enterprise as of the last working day for each month of the current year and the preceding year;
- credit history of the enterprise;
- absence of the file of non-paid settlement documents on all opened settlement (current) accounts;

2) Certificates confirming absence of past debts to the federal budget, budgets of the Subjects of the Russian Federation, local budgets and off-budget funds as well as arrears of the personnel's wages.

In addition, financial statements of all principal shareholders and guarantors shall be submitted. This information should cover three complete years and every quarter of the current year.

7. Relation to the Government and Local Authorities

Objective: provide understanding of availability of support for the Subproject from the state.

It is necessary to indicate if the Subproject is part of any federal or regional program and describe the importance of the Subproject for the regional, local and/or federal authorities as well as the form in which the state support is provided.

8. Information on the Subproject's Compliance with the Objectives of the Sustainable Forestry Pilot Project and the World Bank's Requirements

Objective: provide information enabling to make a decision regarding the compliance of the proposed Subproject with the conceptual foundations of the Pilot Project and major operational requirements of the World Bank.

The following aspects should be demonstrated:

- The Subproject's compliance with the principles of sustainable forestry, which serve as a basis for the world's major systems of voluntary forest certification, including the project on the Russia's national system of voluntary certification. The foregoing principles are given in the Questionnaire which should be enclosed with the Application;
- compliance with the World Bank's Operational Policy on *Forests* (OP/BP 4.36) and *Natural Habitats* (OP 4.04) major provisions of which are given in Annex 4 hereto and the Questionnaire.

9. Information on Environmental Impacts

Objective: provide understanding of compliance by the borrowing enterprise with the requirements of the State Ecological Expertise (SEE).

It is necessary to provide all data required for the environmental assessment of the Subproject (see Annex 4) and the data listed in the Questionnaire. If the environmental assessment classifies the Subproject as Category A, the borrowing enterprise shall furnish an Environmental Impact Assessment Report (see Annex 4 herein and the World Bank's Operational Policy OP 4.01). In some cases said report may be required for Subprojects classified as Category B.

Normally, the foregoing reports are a mandatory requirement in carrying out the SEE and their contents fully agrees with the World Bank's requirements to said reports.

10. Information on the Proposed Forms of Collateral

Objective: propose forms of collateral for servicing and repayment of the projected Subloan of Roseximbank.

This section should describe what collateral is going to be provided by the enterprise; depending on the type of collateral, the following documents should be furnished:

Collateral in the form of pledged goods in turnover:

- * copies of documents confirming availability of material assets and their cost (statement of goods, consignment notes, invoices, warehouse receipts, specifications of goods, etc);
- * copies of insurance policies (if available).

Collateral in the form of pledged equipment or vehicles:

- * copies of documents confirming the right of ownership of the pledged item;
- * copies of technical certificates;
- * copies of insurance policies (if available).
- *

Collateral in the form of mortgage of real estate:

- * copies of legal documents and documents confirming the right of ownership of the real estate object (land leasing contract, real estate purchase contract, certificate of ownership of real estate, certificate of registering the enterprise in the ownership registry);
- * a document of territorial borders of the land parcel (a copy of a drawing of the parcel borders) issued by the Committee of Land Resources and Management (or other body with similar powers);
- * certificate of registration from an official body responsible for registering and technical inventories of real estate, and a floor-plan of the real estate object;
- * a copy of the insurance policy (insurance certificate) and contract of insurance for the real estate object;
- * expert opinion of the cost of property (if available).

Collateral in the form of pledging of securities:

- * documents confirming the right of ownership of securities (extracts of registries, depo accounts, etc);
- * documents confirming absence of encumbrance of securities offered as a pledge.
документы, подтверждающие отсутствие обременения предлагаемых в залог ценных бумаг.

Collateral in the form of guarantee:

- * a letter from the proposed guarantor confirming its intentions to act as a guarantor of the borrower's liabilities;
- * copies of constituent and registration documents of the guarantor;
- * copies of the guarantor's accounts as of the last reporting date.

Collateral in the form of bank guarantee:

- * a letter from the proposed guarantor confirming its intentions to extend a bank guarantee under the borrower's liabilities;
- * a draft of the bank guarantee;
- * copies of constituent and registration documents of the guarantor, a copy of a license to execute banking operations;
- * copies of guarantor's financial statements as of the last reporting date (an aggregated balance sheet, an aggregated profit and loss report, values of economic standards estimated in accordance with the Instruction of the Bank of Russia).

**Annex 2 to Implementation Procedures
for Part B of the Sustainable Forestry Pilot Project**

Execution of Contracts with Suppliers based on Commercial Practice

1. Necessity of Agreements

In accordance with the IBRD guidelines, financing under the Pilot Project is carried out solely on the basis of agreements executed between the borrowing enterprise and its contractors.

2. Approval Procedure for Agreements

This section addresses an approval procedure for Agreements on the procurement of goods (equipment). Requirements to Agreements on the procurement of services differ from those described below. All Agreements financed under the Pilot Project should be approved by specialists of the Contractual Department of the FER. After the Subproject has been on the whole agreed with the FER, Roseximbank shall present for consideration by specialists of the FER available draft agreements which have been proposed for financing out of the Pilot Project's proceeds. It is recommended that Agreements should be furnished prior to the signature thereof in order to facilitate the process of modifications (if necessary) and avoid delays in granting approvals to said Agreements. The FER shall review the submitted documents within 5 working days give its opinion thereon.

3. "Commercial Practice"

Contracts in the amount not exceeding *two million (2,000,000)* Dollars are subjects to a procedure which is nominally called "Commercial Practice". Contracts costing more than said amount are subject to a procedure called the International Competitive Bidding; the latter procedure is not discussed in this document.

4. Justification for the Selection of Suppliers

According to the "Commercial Practice", the Subproject Beneficiary may apply the practice established at its enterprise in respect to competitive selection of suppliers or contractors under agreements as well as the practice of executing contracts taking into account the requirements set forth below. The competitive selection of contractors provides for consideration by the borrowing enterprise of several similar offers presented by different suppliers, preferably from different countries.

Based on the results of the competitive selection, the borrowing enterprise shall draw up a document entitled Justification for the Procurement Method. This document should be not more than 2-3 pages long and contain a description of the procedure of competitive selection of the contractor.

Justification for the Procurement Method should include the following information:

- Proposals of which firms and from what countries were considered. It is advisable to consider proposals of at least three firms.
- A source of information about goods (price lists, preliminary negotiations, visiting of relevant exhibitions, responses to the borrower's inquiries and other sources of information).
- Selection criteria (cost of goods, procurement terms, cost/quality ratio, additional services, and availability of service centers, long term cooperation and other reasons). If equipment is unique or the procurement was carried out to complement the already available equipment, in exceptional cases competitive selection may be disregarded, which should also be reflected in the Justification for the Procurement Method.
- Conclusions on selecting the contractor.

5. Language

Documents presented to the FER for approval, including agreements between Russian legal entities, may be prepared in the Russian language. The agreement may also be signed in 2 languages. If the agreement is signed in two languages, the text should specify which language governs the contractual relations.

6. Minimum List of Conditions to Be Included in the Agreement

6.1. The scope of the Agreement should be clearly defined (a comprehensive list of procured goods indicating prices per item and the total cost of goods should be included as an annex to the Agreement).

6.2. The agreement should set forth all **obligations of the supplier** including, if necessary, the following:

- training of personnel of the borrowing enterprise (indicating the number of trainees, duration and location of training). Expenditures on training of personnel, including training abroad, are payable out of the proceeds of the Pilot Project under a relevant procurement agreement;
- installation and testing services for procured equipment;
- commitments relating to equipment maintenance (warranty and post-warranty service);
- delivery of spare parts;
- mounting of equipment and other works.

All services specified above are payable out of the proceeds of the Pilot Project under a principal agreement signed between the supplier and the borrowing enterprise.

6.3. Terms of Payment

PURSUANT TO THE LOAN AGREEMENT WITH THE IBRD, TAXES AND DUTIES ARE NOT PAYABLE OUT OF THE PROCEEDS OF THE IBRD LOAN; SUBPROJECT BENEFICIARIES SHOULD CONTRIBUTE FUNDS SUFFICIENT TO PAY FOR TAXES AND DUTIES AND FURNISH TO ROSEXIMBANK SUPPORTING DOCUMENTS THEREOF.

It is not recommended under the Pilot Project contracts to make advance payments in the amount exceeding 30% of the contract cost. If the amount of an advance payment exceeds 10% of the contract cost, a mechanism of bank guarantee of advance payment to be provided by the Supplier shall be applied. In the case of a contract with an advance payment in the amount exceeding 30% of the contract cost, expenditures on the advance payment shall be reimbursed only upon the

procurement of goods and furnishing relevant supporting documentation. In any case, the borrowing enterprise shall have to reimburse Roseximbank for the total amount of the advance payment to the Supplier if the latter fails to procure goods (works and services) under the contract within the period established by the contract.

The second payment under the contract in the amount of 40% through 60% of the total cost of procured goods (or a batch of goods) shall be made against the documents confirming the procurement (consignment notes or other documents relating to distribution of goods).

The final payment under the contract (not less than 10%) shall be made upon signature of the acceptance certificate for equipment, i.e. completion of installation and testing of the equipment.

Payment for training of the Buyer's personnel shall be made upon the agreement of the parties.

Due to a complex payment procedure under Subproject contracts, the average time of payments shall vary from 15 to 20 working days following the date of submitting all required documents to the FER.

6.4. Procurement Terms

In the case of signing a contract with a foreign supplier it is recommended to use standard procurement bases set forth in INCOTERMS, 1990 (excluding DDP basis).

On account of contracts signed between Russian legal entities, international procurement terms INCOTERMS, 1990 or 2000, shall not be used since international terms may not be applied for internal procurement.

6.5. Responsibility for Default or Inappropriate Execution of the Contract is established by agreement of the parties.

Other contractual terms and conditions shall be determined by the parties (a supplier and the borrowing enterprise).

**Annex 3 to Implementation Procedures
for Part B of the Sustainable Forestry Pilot Project**

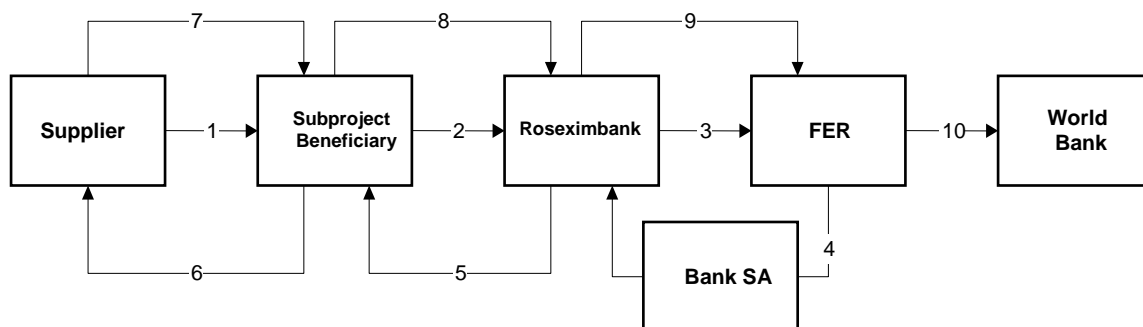
Financial Procedures

Payments under contracts executed between Subproject Beneficiaries and their suppliers shall follow standard mechanisms in accordance with the World Bank procedures: direct withdrawals from the Loan Account of the World Bank or the Special Account of the Pilot Project, and reimbursement for payments already made by Roseximbank. Pursuant to Loan Agreement No. 4552-RU, no proceeds of the Loan shall be withdrawn on account of payment for any taxes and duties, which should be paid from the funds contributed, as co-financing, by Subproject Beneficiaries. Roseximbank shall be responsible for monitoring of payments contributed as co-financing and furnish to the FER relevant documents to be integrated in reporting under the Pilot Project.

Payment Schemes

Interaction among the Project stakeholders relating to payments from the Special Account, which is the most typical form of payments, is shown in the charts below.

Option 1: Payment

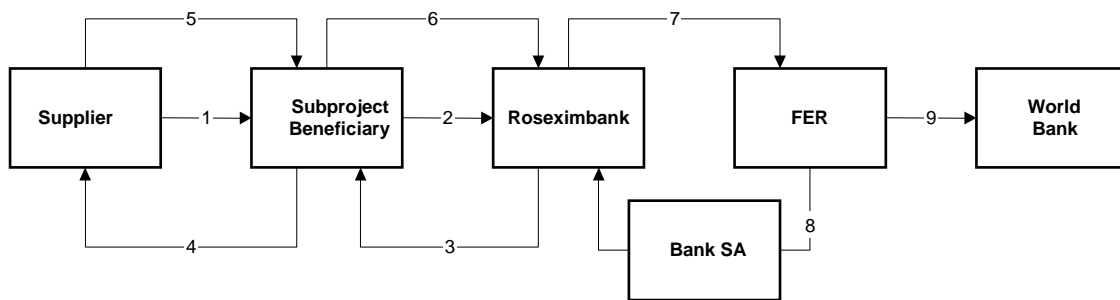


- 1 The Supplier shall issue the original invoice to the Subproject Beneficiary enclosing relevant supporting documents pursuant to the contract (e.g. shipping documents, warranties, acceptance certificates, etc as required by the contract).
- 2 The enterprise shall furnish a withdrawal application under the Subproject Agreement in the format acceptable to Roseximbank enclosing the original copy of the Supplier's invoice and copies of supporting documents (if necessary).
- 3 Roseximbank shall furnish to the FER a request for payment under the Subproject following the approved format which would be signed by an authorized representative of the bank (according to the list available in the FER). The following documents shall be enclosed with the request for payment: the original and 2 copies of the Contract (unless this document was previously submitted to the FER), the original and 2 copies of the Supplier's invoice, 2 copies of supporting documents, and documents confirming payment of taxes and duties from the funds of the Subproject Beneficiary.
- 4 The FER shall prepare payment documents to transfer the proceeds from the Special

Account (SA) of the Pilot Project to Roseximbank and submit these documents to the bank where SA of the Pilot Project is opened.

- 5 Roseximbank shall transfer funds under the Subproject Agreement to the account of the enterprise. The transfer should be made within 2 banking days following the receipt of funds from the FER.
- 6 The enterprise shall pay the Supplier's invoice. The payment should be made within 2 banking days following the receipt of funds from Roseximbank.
- 7 The Supplier shall fax to the enterprise a notification confirming the receipt of funds on its account.
- 8 The enterprise shall furnish to Roseximbank an acknowledgement of receipt of funds under the Subproject Agreement in the amount of the Supplier's invoice (an original) and a copy of fax from the Supplier confirming the receipt of funds according to the invoice.
- 9 Roseximbank shall furnish said documents to the FER (not later than 10 days following the receipt of funds by the Supplier).
- 10 The FER shall furnish to the IBRD a request for deposit into the SA to replenish the amount withdrawn under the Subproject.

Option 2: Reimbursement



- 1 The Supplier shall issue the original invoice to the Subproject Beneficiary enclosing relevant supporting documents pursuant to the contract (e.g. shipping documents, warranties, acceptance certificates, etc pursuant to the contract).
- 2 The enterprise shall furnish a withdrawal application under the Subproject Agreement in the format acceptable to Roseximbank enclosing the original copy of the Supplier's invoice and copies of supporting documents (if necessary).
- 3 Roseximbank shall transfer funds under the Subproject Agreement to the account of the enterprise. The transfer should be made within 2 banking days following the receipt of funds from the FER.
- 4 The enterprise shall pay the Supplier's invoice. The payment should be made within 2 banking days following the receipt of funds from Roseximbank.
- 5 The Supplier shall fax to the enterprise a notification confirming the receipt of funds on its account.
- 6 The enterprise shall furnish to Roseximbank an acknowledgement of receipt of funds under the Subproject Agreement in the amount of the Supplier's invoice (an original) and a copy of fax from the Supplier confirming the receipt of funds according to the invoice.

- 7 Roseximbank shall furnish a package of documents to the FER (not later than 10 days following the receipt of funds) enclosing the original and 2 copies of the Contract (unless this document was previously submitted to the FER), the original and 2 copies of the Supplier's invoice, 2 copies of supporting documents, and documents confirming payments on account of co-financing funds.
- 8 The FER shall reimburse Roseximbank for the expenditures incurred under the Subproject within 10 days following the receipt from Roseximbank of documents specified in p. 7.
- 9 The FER shall furnish to the IBRD a request for deposit into the SA to replenish the amount withdrawn under the Subproject.

Applications of Roseximbank

The transfer of loan funds from the FER is made based on applications prepared according to the format given below and signed by an authorized representatives of Roseximbank.

On the letterhead of Roseximbank

**APPLICATION FOR THE WITHDRAWAL
OF THE PROCEEDS OF THE LOAN UNDER
PART B OF THE SUSTAINABLE FORESTRY PILOT PROJECT**

Application No.: _____

Date: _____

To: Noncommercial Foundation for Enterprise Restructuring
and Financial Institutions Development

Mr. M.P. Korolkov
Director general

Re:

- **Subsidiary Loan Agreement No. _____ dated _____ between the Ministry of Finance of the Russian Federation and Roseximbank**
- **Subproject Agreement No. _____ dated _____ between Roseximbank and _____ (name of the Subproject Beneficiary)**

We hereby request you to execute payments in accordance with the terms and conditions of the foregoing Subsidiary Loan Agreement and the Subproject Agreement out of the proceeds extended pursuant to Loan Agreement No. 4552-RU dated March 30, 2001, between the Russian Federation and the International Bank for Reconstruction and Development and the Amendments thereto.

Payment instructions:

Currency and amount of payment _____ (currency) _____ (amount in words and figures)

Name of the Bank: _____

Address of the Bank: _____

Number of the bank account: _____

Name of the bank account: _____

We hereby confirm that:

- A. Said expenditures were not previously paid out of the proceeds of the foregoing Loan No. 4552 – RU. Roseximbank did not have and shall not have any intentions to receive funds from other sources for the purpose of reimbursement for said expenditures.
- B. Goods, works and services included in this Application were procured or are procured by the Subproject Beneficiary under the Subproject approved in strict compliance with the terms and conditions of the Subsidiary Loan Agreement and Implementation Procedures for Part B of the Sustainable Forestry Pilot Project. If the received amount shall not be used in accordance with the provisions of the Subsidiary Loan Agreement, Roseximbank confirms its consent with relevant measures to be taken by the Ministry of Finance of the Russian Federation pursuant to Article _____ of the Subsidiary Loan Agreement.
- C. Roseximbank shall perform its obligations under the terms and conditions of the Subsidiary Loan Agreement with due diligence and efficiency. Roseximbank confirms that no event has occurred that would significantly and irreversibly affect activities of the bank, or its financial status, or its capacity to be engaged in the Project and/or performance by Roseximbank of its obligations under the Subsidiary Loan Agreement.
- D. *Payment option:* Roseximbank confirms that the requested amount shall be transferred to the account of the Subproject Beneficiary _____ (name of the enterprise) pursuant to the terms and conditions of the foregoing Subsidiary Loan Agreement within two working days following the receipt by Roseximbank of said funds. Roseximbank confirms that the Subproject Beneficiary shall transfer said amount to the Supplier within two working days following the receipt of said funds by the Subproject Beneficiary. Roseximbank confirms that it shall bear responsibility for eligible use of said funds in strict compliance with the objectives of the contract(s) specified in this Application and it shall undertake a commitment to furnish to the Noncommercial Foundation for Enterprise Restructuring and Financial Institutions Development, within 10 working days following the receipt of the funds, a copy/copies of document(s) acknowledging the receipt of the funds by the Supplier from the Subproject Beneficiary, and the original(s) of document(s) acknowledging the receipt of the funds by the Subproject Beneficiary from Roseximbank.
- Reimbursement option:* Roseximbank confirms that the requested amount shall be used to reimburse for expenditures incurred by Roseximbank pursuant to the terms and conditions of the foregoing Subsidiary Loan Agreement.

Details of the Subproject Beneficiary, Supplier, Contract and Account:

Name of the Supplier:

Date and number of the Contract:

Currency and total amount of the Contract:

Number of the Account:

Currency and amount of the Contract:

Amount of expenditures to be financed (*indicate currency*):

Sincerely,

On behalf Roseximbank:

(Signature)

Name

Position

Seal

ENCLOSURE to the Application for Withdrawal No. _____ dated _____

List of enclosed documents:

1. A copy of the Contract
2. A copy of the invoice No. ___ dated ____
3. A copy of payment order(s) (or application(s) for transfer) No. _____ dated _____, and other documents evidencing the flow of funds in the accounts of the parties.
4. A copy of the acceptance certificate
5. A copy of the consignment note (if provided so by the contract)
6. A copy of the cargo customs declaration (if provided so by the contract)
7. Other documents in accordance with the provisions of the contract

Notarized specimen signatures (as a bank card) of the persons authorized to sign applications for withdrawal of the proceeds of the Subsidiary Loan with a transmittal letter should be furnished to the FER prior to or at the same time with the first application for financing out of the loan funds. All applications for withdrawal of funds under the Pilot Project should be numbered sequentially beginning with the number one. If the text of the application consists of two or more pages, each page should be certified by a seal and signed by an authorized person.

Applications for withdrawal should be submitted **in duplicate** (that is, the original copy plus one certified copy).

Enclosed with the Application should be the contract (1 original plus 2 copies) and **two** (!) sets of supporting documentation certified by Roseximbank which shall comprise the following documents depending on the payment terms for each specific contract:

- Supplier’s bill;
- Supplier’s invoice;
- transport documents or/and documents of title (consignment note, customs declaration, packing list);
- certificate of origin;
- insurance certificate;
- acceptance certificate;
- confirmation of payment (to reimburse for earlier incurred expenditures from own funds);
- copies of the bank guarantee to repay an advances (under advance payments), if provided so by the contract;
- documents specified by the provisions of the contract to confirm the receipt of works, goods and services;
- abstracts from the credit account of the enterprise, etc.

All documents should be certified by Roseximbank “true copy” with the originals of the seal and signature of a person authorized for that purpose.

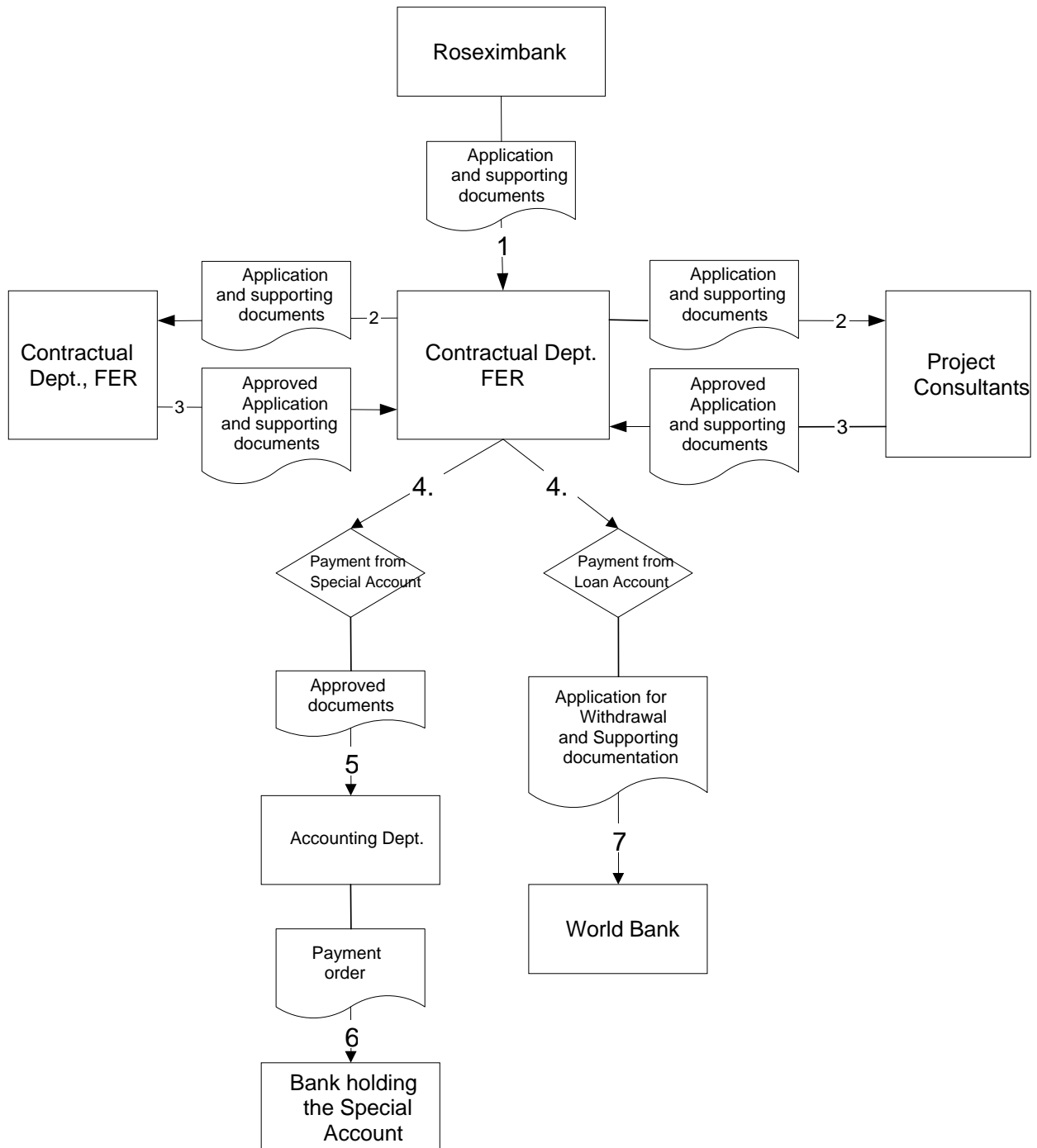
Review and Payment Procedures for Applications for Payment out of the Proceeds of Roseximbank’s Subsidiary Loan

Disbursement of the subsidiary loan funds against Loan No. 4552-RU shall be executed by Roseximbank only upon the official registration of its pledges with the Ministry of Finance of Russia.

Review of applications and packages of supporting documents received from Roseximbank shall be carried out in accordance with a standard procedure of internal control accepted in the FER and operative in regard to all the projects implemented with the assistance of the FER. In particular, a

detailed description of this procedure is given in the Operational Guidelines under the Pilot Project approved by the World Bank.

The chart below represents the process of screening financial documents in reviewing of Roseximbank's applications.



Stage 1. Roseximbank shall prepare an application (in 2 copies) in the format specified above and submit it for registration to the Financial Department of the FER. The following documents should be enclosed with the application: an agreement between the enterprise and the supplier, acceptance certificates, payment documents, abstracts from the credit account of the enterprise and other documents. The Financial Department shall register the application and issue an authorization list to track passing through the stages of internal control.

Stage 2. The Financial Department shall pass Roseximbank's application and supporting documents for the review by the Project Consultants and the Contractual Department. The Project Consultants shall check the availability of Roseximbank's registered collateral, determine the maximum amount due for financing based on the amount of collateral, and determine the conformity of specifications with the objectives of the Subproject. The Contractual Department shall check the availability of the Department's approval to execute the contract, the conformity of the actual amount of the contract with the approved procurement package, and the conformity of the invoice and supporting documents with the approved contract.

Stage 3. Upon completion of screening the Project Consultants shall make permissive records and give relevant comments in the authorization list and return the documents to the Financial Department.

Stages 4.1 and 4.2. The Financial Department shall screen the application and supporting documents in order to determine the amount due for financing out of the proceeds of Loan No. 4552-RU and the payment method as well as screen the documents as to their compliance with the financial provisions of the contract. In case of comments and remarks, a specialist from the Financial Department shall promptly get in touch with an authorized representative of Roseximbank in order to receive clarifications and additional documents. A period of initial screening of documents by the Financial Department of the FER is 5 days. Upon the expiration of said period, the specialist from the Financial Department should either make a decision on payment, or give comments for the revision of documents and communicate these comments to Roseximbank. If Roseximbank shall have furnished documents requested by the specialist from the Financial Department, the re-screening period shall be also 5 days. In the absence of any such comments on the application and the supporting documents, the specialist from the Financial Department shall make a decision on payment from the Special Account or the Loan Account.

Stage 5. If the payment is made from the Special Account of the Pilot Project, the documents shall be furnished to the Accounting Department to issue a payment order.

Stage 6. The Accounting Department shall issue a payment order and present it for payment to the Bank holding the Special Account.

Stage 7. If the payment is made from the account of Loan No. 4552-RU, the Financial Department shall prepare an Application for Withdrawal from the loan account and present it for payment to the World Bank.

**Annex 4 to Implementation Procedures
for Part B of the Sustainable Forestry Pilot Project**

Environmental Assessment of Subprojects

Subprojects proposed by potential Subproject Beneficiaries under Part B of the Sustainable Forestry Pilot Project should meet requirements of the Russian environmental legislation as well as environmental and social requirements of the World Bank and objectives of the Pilot Project related to sustainable forestry.

The potential Subproject Beneficiary is responsible for determining, understanding and carrying out all the necessary procedures in order to comply with environmental requirements provided by the Russian legislation, including the mandatory State Ecological Expertise (SEE).

The Russian legislation on protection of the environment, human life and health is consistent with the internationally accepted practices and meets, and in many aspects even surpasses, the World Bank's standards. However, in the areas where the World Bank's requirements are likely to differ from the requirements of the Russian legislation, the end borrower may be requested to submit additional information.

Requirements of the Russian Legislation

In connection with the SEE, a justification for the proposed subproject submitted by an initiating enterprise (a potential Subproject Beneficiary) in addition to detailed information on the subproject and engineering specifications, should also contain the Environmental Impact Assessment (EIA) pursuant to the following laws and enactments:

- Federal Law #7-Φ3, dated January 10, 2002, on Natural Environment Protection (as amended August 22 and December 29, 2004, and May 9, 2005);
- Federal Law # 174-Φ3, dated 23 November, 1995, on Environmental Expertise, (as worded in Federal Laws # 65-Φ3, dated April 15, 1998, # 122-Φ3, dated August 22, 2004 (as edited December 29, 2004), and # 172-Φ3, dated December 21, 2004);
- Regulations on the Procedures of the State Ecological Expertise (approved by Resolution of the Government of the Russian Federation # 698, dated June 11, 1996);
- Regulations on the State Ecological Expertise (Attachment to Administrative Order of the State Committee for Environmental Protection of Russia # 280 dated June 17, 1997);
- Administrative Order of the Ministry of Natural Resources of the Russian Federation # 392 dated September 28, 1995 on Approval of the Uniform Format for the Conclusion of the State Ecological Expertise;
- Regulations on the Environmental Impact Assessment for Intended Economic and Other Activities/Operations in the Russian Federation (Attachment to Administrative Order of the State Committee for Environmental Protection of Russia # 372, dated May 16, 2000); and
- Other enactments relating to the forest sector which are legally binding on the territory of the Russian Federation.

World Bank's Requirements

The World Bank undertakes environmental screening of each proposed project to determine the appropriate extent and type of the environmental assessment (EA). As detailed below, the World Bank classifies the proposed project into one of three categories, depending on the type, location, sensitivity, and scale of the project and the nature and magnitude of its potential environmental impacts. Depending on the project, a range of instruments can be used to satisfy the World Bank's EA requirements. A complete description of these requirements is set forth in the Operational Policy on *Environmental Assessment* (OP 4.01), as well as in the Operational Policy on *Forests* (OP 4.36); *Natural Habitats* (OP 4.04); and in the Bank Procedures on *Environmental Assessment* (BP 4.01); *Forests* (BP 4.36).

In accordance with OP 4.04 (Natural Habitats), the World Bank promotes and supports efforts in natural habitat conservation and improved land use by financing projects designed to integrate the conservation of natural habitats and the maintenance of ecological functions into national and regional development plans. Besides, the Bank promotes the rehabilitation of degraded natural habitats. The Bank does not support projects that, in the opinion of its experts, involve the significant conversion or degradation of critical natural habitats.

Wherever possible, Bank-financed projects are carried out on lands already converted (excluding any lands that, in the opinion of the Bank's experts, were converted in anticipation of the project). The Bank does not support projects involving the significant conversion of natural habitats unless there are no realistic alternatives for the project.

Requirements of the World Bank's Operational Policy on Forests (OP 4.36) apply to the following types of investment projects:

- (a) projects that have or may have impacts on the health and quality of forests;
- (b) projects that affect the rights and well-being of people and their level of dependence upon forests or interaction with forests; and
- (c) projects that aim to bring about changes in the systems of management, protection, or utilization of natural forests or artificially created forests (plantations), whether they are publicly, privately, or communally owned.

The World Bank does not finance projects that:

- may entail significant conversion or degradation of critical forest areas or related critical natural habitats;
- contravene international environmental agreements;
- are designed to establish plantations that may entail conversion or degradation of critical natural habitats;
- are designed to build forest roads including hauling roads.

The following projects are subject to financing with certain reservations:

- projects which, though may involve a significant conversion or degradation of natural forests, however the affected forests are not critical, and, besides, overall benefits from the project substantially outweigh environmental concerns, and appropriate mitigation measures are incorporated to minimize the adverse effects;
- projects designed to establish plantations on unforested sites or lands already converted, provided that appropriate mitigation measures are developed and incorporated to prevent and minimize threats to natural habitats (threats to biodiversity, etc);

- projects addressing commercial harvesting operations only if the areas affected by the harvesting are not critical forests or related critical natural habitats (to be determined based on the EA results);
- projects addressing industrial-scale commercial harvesting operations under the following conditions:
 - (a) certification under an independent forest certification system acceptable to the Bank;
 - (b) if a pre-assessment under an independent forest certification system has determined that the operation does not yet meet the requirements indicated in the previous subparagraph, the project should include a time-bound phased action plan to ensure conformity with such standards of forest management.
- projects addressing harvesting operations conducted by small-scale landholders or local communities provided that these operations:
 - (a) conform with a forest management standards developed with the meaningful participation of locally affected communities, and are consistent with the principles and criteria of responsible forest management (see section. 10 of OP 4.36).
 - (b) carry out to a time-bound phased action plan to ensure conformity with such a standard. The action plan should be developed with the meaningful participation of locally-affected communities.

Evaluation Categories of the World Bank

In accordance with the Operational Policy 4.01, to assess the extent and nature of environmental impacts of the reviewed project the World Bank applies a simple evaluation procedure based on classification of the proposed project into one of three categories (A, B or C).

- **Category A:** A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts. These impacts may affect an area broader than the sites or facilities where the project is implemented. For a Category A project, the borrower is responsible for preparing EA and the environmental management plan (EMP). EA for a Category A project examines the project's potential negative and positive impacts, compares them with acceptable alternatives (including the "without project" situation), and recommendations and measures needed to prevent, minimize, mitigate, or compensate for adverse consequences and improve the environmental situation.
- **Category B:** A proposed project is classified as Category B if its potential adverse environmental impacts on the population or environmentally important areas, including wetlands, forests, grasslands, and other natural habitats are less adverse than those of Category A projects. These impacts have site-specific nature; only some of them (if available) are irreversible; in most cases compensatory measures can be designed more readily than for Category A projects. Category B projects presume responsibility of the borrowing enterprise for preparation of an EMP. The scope of EA for a Category B project may vary from project to project, but it is narrower than the scope of EA for Category A. Like in Category A, EA examines the project's potential negative and positive environmental impacts and recommendations and measures necessary to prevent, minimize, mitigate, or compensate for adverse consequences and improve the environmental situations.
- **Category C:** A proposed project is classified as Category C if it has no or minimal adverse environmental impacts. No EA is required for Category C projects in addition to environmental screening.

Compliance with Principles of Sustainable Forest Use

Subprojects proposed by potential Subproject Beneficiaries should comply with the criteria of sustainable forest use which serve as a basis for the world's major systems of voluntary certification, including the Russian national system of voluntary forest certification currently under development. Principles listed below are also consistent with the World Bank's requirements to a forest certification system:

- sustainable forest use;
- rational and efficient utilization of forest products; applying environmentally-friendly technologies;
- conservation of forest viability and biodiversity;
- conservation of the ecological functions of forests, such as soil-protection, water-regulation, etc;
- maintenance of high conservation value forests;
- forest use and management planning.

For more details on the principles see section "Format and Contents of Primary Documents" in the Questionnaire.

Procedures of Environmental Assessment of Subprojects

The general procedure of environmental assessment is presented in the table below. The format and contents of documents mentioned in the table, with the exception of the Questionnaire and EIA summary, will be included in the annexes to the Terms of Reference for the environmental consultant (EC).

Stages of Environmental Assessment

Stage	Executed by	Output	Comments
Advertising	FER/EC	Seminar-presentation of the environmental component	Participants of the seminar will be introduced to the objectives of the Project related to sustainable forest use; environmental requirements of the Russian legislation; the World Bank's requirements; the format of the Questionnaire and the procedure for its processing; and environmental assessment procedures. Participants: - administrations of the Participating Regions - forest enterprises - MOF - FFA - Roseximbank - FER
Preparation of Applications	Borrowing enterprise, FER/EC	Filled-in Questionnaire	The environmental Consultant (EC) will advise borrowing enterprises on filling out Questionnaires.
Prior review of Applications	FER/EC	Assessment Memo	Filled-in Questionnaires are reviewed by the EC as to their completeness, and additional information may be requested from the borrowing enterprises. Subprojects are classified into one of the environmental categories in accordance with OP 4.01. A decision is made on compliance or non-compliance with the legislation of the RF, the World Bank' environmental requirements and basic principles of sustainable forest use and the need to revise the subproject or reject it.

Stage	Executed by	Output	Comments
			The EC prepares an Assessment Memo, including a justification for the project Category, and furnishes it to the World Bank for approval enclosing copies of the Questionnaire, if necessary.
Revision of Applications and notification of the borrowing enterprises and Roseximbank. Presentation of EIA reports.	FER/EC	Notification of assigning an Environmental Category. Terms of Reference for an independent consultant to prepare the EIA. EIA materials for each project.	If presented information is not sufficient, the EC requests the borrowing enterprises to submit additional information based on the data which already have been submitted or should be submitted to the Russian authorities under the process of the State Ecological Expertise (SEE) carried out pursuant to the environmental legislation of the RF. Upon approval of the decision by the World Bank the EC notifies the borrowing enterprise and Roseximbank thereof. At this stage, the borrowing enterprise will submit to the FER, as soon as available, the EIA. For category A subprojects submitting of the EIA is mandatory (the EIA is a prerequisite in the SEE process). For Category B Subprojects the EIA scope will be determined by the EC based on the results of environmental screening and communicated to the borrowing enterprise. If at the stage of environmental screening, the EIA is not ready, the EC may request the borrowing enterprise to furnish the Terms of Reference for a consultant to prepare the EIA (to accelerate the EA procedure). The EC will adapt the submitted EIA to fit the World Bank's format.
Complete evaluation of Applications	FER (EC), World Bank, Roseximbank	Environmental and Social Assessment Check List . EIA Summary.	The EC will review the EIA materials, fill in the Check List to check the submitted EIAs, prepare an EIA summary, and forward these materials to the World Bank for approval. The borrowing enterprise is responsible for submitting all the data necessary to prepare the EIA summary. The World Bank may request additional works relating to EA, including information disclosure and public consultations (those are part of the SEE procedure).
The World Bank's no-objection	World Bank, Borrowing enterprise, FER-EC	Positive conclusion of the SEE No-objection to EA	The EC will coordinate the approval process.
Signing of the Subproject Agreement	Roseximbank, borrowing enterprise	Letter of commitment Subproject Agreement	The Subproject Agreement may be signed only if EA has been agreed with the World Bank and a positive conclusion of the SEE has been granted, provided that such is required, as well as a letter of commitment has been issued to confirm that as of the effective date of the Subproject Agreement, all authorizations required by the Russian legislation to secure safety, and protection of human health and environment, have been obtained and are valid, or will have been obtained by the beginning of project implementation.
EA Performance monitoring	Borrowing enterprise, FER-EC, Roseximbank	Annual Inspection Report (AIR)	The EC will be responsible for monitoring and furnishing, if necessary, to the World Bank of the AIRs from the Subproject Beneficiaries covering performance under the environmental management plan, mitigation measures for the environmental impacts and other facts relating to environmental aspects as identified in the process of monitoring.

Prior Environmental Screening

Together with the Subloan Procedures a borrowing enterprise will receive a Questionnaire. The format of the Questionnaire is presented in section “Format and Content of Primary Documents” below. Information obtained through the Questionnaire is necessary for the World Bank and FER to determine

- (i) an Environmental Category of the proposed subproject according to the World Bank’s classification; and, consequently,
- (ii) need for additional information to be submitted by the borrowing enterprise to comply with the World Bank requirements.

The questionnaire will be filled in with the assistance of the FER’s Environmental Consultant (EC). Upon receipt of the filled Questionnaire the FER (EC) will make a decision as to whether the proposed subproject meets the basic criteria of the Pilot Project, the Russian legislation and the World Bank standards; or whether the subproject needs to be revised; or whether it should be rejected. The EC will determine into which Environmental Category (A, B or C) the reviewed subproject should be classified (the EC will prepare an Assessment Memo providing a justification for the project Category and furnish it to the World Bank enclosing copies of the Questionnaire, if necessary).

If the subproject proposed by the borrowing enterprise is found acceptable for financing under the Pilot Project, the World Bank will promptly issue its “no objection” confirming to the FER the Category assigned to the subproject. The FER (EC) will furnish to Rosximbank and the borrowing enterprise a notification of the assigned Environmental Category and/or a request for additional environmental documentation (if necessary).

At this stage the potential Subproject Beneficiary will submit to the FER an Environmental Impact Assessment (EIA) Report (as soon as available) which comprises an integral part of the documentation package to be submitted for the SEE in compliance with the Russian legislation¹. The format of the EIA is given in Section “Format and Contents of Primary Documents” below.

If at the stage of prior environmental screening the EIA is not ready, the EC may request the borrowing enterprise to submit the Terms of Reference for a consultant (as is also required by the Russian legislation) to prepare the EIA. This document may be requested to accelerate EA procedures under the subproject.

The EIA is a mandatory requirement for Category A subprojects.

The scope of required EA for Category B subprojects may vary from subproject to subproject, therefore the comprehensiveness of the EIA is determined based on results of prior EA.

The FER (EC) will notify the borrowing enterprise and Rosximbank of the need to furnish additional information which, if necessary, should go beyond the SEE requirements. In most cases however, documentation required for the SEE would be sufficient.

No further EA action is required for Category C subprojects.

¹ Federal Law #7-Φ3, dated January 10, 2002, on Natural Environment Protection (as amended August 22 and December 29, 2004, and May 9, 2005);

Federal Law # 174-Φ3, dated 23 November, 1995, on Environmental Expertise, (as worded in Federal Laws # 65-Φ3, dated April 15, 1998, # 122-Φ3, dated August 22, 2004 (as edited December 29, 2004), and # 172-Φ3, dated December 21, 2004);

Regulations on Environmental Impact Assessment for Intended Economic and Other Activities in the Russian Federation (Attachment to Administrative Order of the State Committee for Environmental Protection of Russia #372 of May 16, 2000).

Complete environmental assessment

Upon receipt of the EIA reports and additional information, the FER (EC) will review them, check the Check List for the submitted EIA reports or the Terms of Reference, prepare an EIA summary in accordance with the requirements of OP 4.01 (Annexes B and C), and furnish them to the World Bank for approval. For Category A subprojects such a summary should consist of the EIA, Review of Alternatives, and the Environmental Management Plan (EMP). For Category B subprojects the comprehensiveness of this report will be specified on a case-by-case basis.

The borrowing enterprise is responsible for submitting all the data necessary for the EIA summary.

The foregoing documents are also required by the Russian legislation in the process of environmental impact assessment which constitutes part of the SEE.

Additional environmental assessment requirements

In addition to the requirements for environmental documentation specified above, the World Bank's Operational Policy 4.01 (para. 15 and 16) sets forth a requirement for *public consultation and disclosure* for all end-loans of Category A and B subprojects. The Russian legislation also contains such provisions for the environmental impact assessment under SEE².

According to the Russian legislation, a SEE conclusion will be issued to the borrowing enterprise which should be then made available for the public prior to final approval by the Russian environmental authorities for a period of time sufficient for familiarization with the documents and provision of comments. Thus, a borrowing enterprise will have an opportunity to comply with the World Bank's requirements while processing the SEE. In addition, a borrowing enterprise may present extracts from the Application, including information specified in the Questionnaire, rather than a separate subproject summary.

Environmental Assessment Approval by the World Bank

The World Bank will issue its final approval for the execution of the Subproject Agreement provided that

- (i) the borrowing enterprise submits to the FER (the World Bank) a certified copy of a positive conclusion of the SER, and if the FER (EC) determines that no additional review is required in this particular case; and
- (ii) the World Bank approves the environmental documentation (including, if necessary, additional information).

In addition to the foregoing documentation, all borrowing enterprises (irrespective of their Environmental Category) should sign letters of commitment to confirm that as of the effective date of the Subproject Agreement, all authorizations required by the Russian legislation to secure safety and protection of human health and environment, have been obtained and are valid, or will have been obtained by the beginning of project implementation, and will be updated over the whole duration of the subprojects. The respective commitment of the borrowing enterprise may be included in the Subproject Agreement.

² Federal Law # 174-Ф3 of November 23, 1995, on Environmental Expertise (as worded in Federal Laws # 65-Ф3, of April 15, 1998, #122-Ф3 of August 22, 2004 (as amended on December 29, 2004), and # 172-Ф3 of December 21, 2004);

Regulations on Environmental Impact Assessment for Intended Economic and Other Activities in the Russian Federation (Attachment to Administrative Order of the State Committee for Environmental Protection of Russia #372 of May 16, 2000).

Performance Control and Monitoring

All subprojects implemented by Subproject Beneficiaries within the period of Pilot Project implementation will be subjects to control and monitoring for the purpose of assessing their compliance with requirements of the Russian legislation and the World Bank.

For Category A subprojects the FER (EC) will monitor performance of obligations under the EMPs. In particular, each year a borrowing enterprise will submit an Annual Inspection Report (AIR), with an indicated date of the inspection, to determine whether obligations under the EMP have been met by the subproject. Such reports will be prepared by independent consultants hired by Subproject Beneficiaries and acceptable for the World Bank. A borrowing enterprise may hire such a consultant at its own discretion provided that the World Bank has issued its prior ‘no-objection’ for the candidate. The FER (EC) will furnish, if necessary, each AIR to the World Bank for its review.

If an AIR fails to demonstrate consistency with the Environmental Management Plan, a relevant explanation should be produced. Depending on the situation, the Subproject Beneficiary is expected to present a clear, detailed and time-bound action plan to ensure compliance with the requirements of the Russian environmental authorities and receive their approval thereof. Expenses associated with corrective actions taken to meet the relevant requirements will be covered by the Subproject Beneficiary and regarded as the company’s commercial risk. The risk of enforcement measures which may be taken by the Russian environmental authorities pursuant to the effective legislation, including termination of the subproject if such is required by law, is not considered as a risk which may be covered out of the proceeds of the Pilot Project, and, consequently, may not give rise to claims to the Russian federal authorities.

For Category B subprojects, if and when an EMP is required (which will be determined for each project on an individual basis), the FER will monitor the performance of obligations thereunder following the same procedure as for Category A.

For Category C subprojects no EMP is required, consequently, performance monitoring is inapplicable.

In addition to the monitoring activities specified above, all Subproject Beneficiaries should annually furnish to the FER (and whenever necessary to the World Bank) a letter of commitment to reconfirm that all authorizations required by the Russian legislation to secure safety and protection of human health and environment for the period of Project implementation have been obtained or will be obtained (a letter of commitment to be renewed on an annual basis). Any significant violation of the commitment letter may lead to the termination of financing under the Pilot Project and demand for early repayment of the disbursed funds.

Format and Content of Primary Documents

1) Questionnaire *(to be filled in by the borrowing enterprise)*

Please take time to fill in the Questionnaire and forward it back to the FER (the Sustainable Forestry Pilot Project). Also, if available, please furnish a copy of the Environmental Justification (in the Russian language and, if available, its English translation) or any other documents submitted earlier to the Russian environmental agencies.

- The Questionnaire below aims to determine (1) the Environmental Category of the proposed subproject under the World Bank’s classification, and (2) additional information which may be requested, if necessary, by the World Bank based on the data which were already submitted or should be submitted for processing the SEE.

- Upon submission of the filled-in Questionnaire, the borrowing enterprise will be informed about the Environmental Category assigned to the proposed subproject and requested, if necessary, to submit additional information to be included in the Application package.
- The Application will be considered complete and disbursement will start only if all the environmental requirements of the Russian legislation and the World Bank have been met.

1. Project Description

(Project description may be provided in Section 4 of the Business Plan. In that case inclusion of this section in the Questionnaire is optional).

Give a brief description of the nature of the subproject and production technology. The description should include answers to the following questions:

- Nature of the subproject: establish a new operation, restore an earlier existing operation, increase the production capacity, etc.
- **Production technology starting from the procurement/ extraction/ transportation/ storage of resources to processing /storage and delivery of end-products (including by-products),**
including:
 - (a) volume of manufactured products and any by-products;
 - (b) a brief description of the main stages of production and basic equipment used;
 - (c) needs in and sources of energy (fuel used for heating, and electric power);
 - (d) needs in and sources of water;
 - (e) required infrastructure (gas and water supply, sewage, access roads, power lines, housing for workforce, etc.);
 - (f) types and amount of any hazardous substances (toxic, easily inflammable, explosive, radioactive) used in production or manufactured as products or by-products. Give details of their storage, packaging and/or transportation.

Please, provide additional information if, in your opinion, it is relevant for the description of environmental aspects of the subproject, though does not present a direct answer to the questions above.

2. Baseline Conditions

Describe the environmental situation in the proposed subproject site. The description should include information on:

- any areas or objects of high environmental value (national parks, nature reserves, rare or endangered plant and animal species), or those which are officially protected by the state;
- local water resources, especially if surface waters (lakes, rivers, seas, etc) are located close to or across the state's boundary;
- If the Subloan involves significant amounts of liquid or gaseous wastes, please provide data on the current levels of water and air pollution in that area. Indicate if the permissible concentration levels established for a respective area (a settlement, an operational zone, or a forest) have been violated prior to the subproject startup.

3. Environmental Problems

Describe or indicate key environmental problems (if such are available) associated with both, construction and operation of an object intended to be established under the proposed subproject. The list of issues may include:

- type of atmospheric emissions, especially gases that influence the greenhouse effect (CO₂) – the estimated amounts and composition of emissions (including noise) and comparison with the permissible emission levels. Describe any special equipment used or measures taken to keep emissions under the permissible limits;
- type of discharges into water – estimated amounts and composition of discharges and comparison with the permissible levels. Describe any special equipment used or measures taken to keep discharges under the permissible limits;
- amounts and composition of solid wastes (including hazardous substances) and proposed methods of their utilization. Describe procedures or preparatory works to ensure environmental protection. Describe all regulatory requirements to construction or operation of the object, applicable in such cases;
- describe specially hazardous or detrimental labor conditions, and measures to be taken to protect workers' lives and health as well as effective regulatory requirements.

4. Compliance with the Objectives of the Sustainable Forestry Pilot Project

Briefly describe consistency of the proposed subproject with major principles of sustainable forest use specified below:

Principle: sustainable forest use,

including:

- balance between harvested volumes of forest products and the resources potential;
- employment of technological processes and technical means which help maintain or increase productivity and commercial value of exploited forests and prevent damage of remaining trees and soils;
- thinning operations carried out as required;
- compliance with established schedules of forest management operations;
- maintaining the share of clear cuts at an environmentally reasonable level.

Principle: rational and efficient utilization of forest products; application of environmentally-friendly technologies,

including:

- utilization of timber forest products in accordance with the established norms;
- rational and efficient utilization of all harvested timber;
- rational harvesting, transporting from the felling site and utilization of timber designated for felling;
- appropriate and environmentally safe storage and primary processing of harvested wood resources;
- efficient utilization of wastes from primary processing of timber;
- development of processing capacities for harvested wood resources;
- development of processing capacities for secondary forest products;

- utilization of non-timber forest products (NTFP) in accordance with established norms and processing of NTFPs;
- establishment and maintenance of forest infrastructure.

Principle: conservation of forest viability and biodiversity

Principle: conservation of the ecological functions of forests, such as soil-protection, water-regulation, etc,

including:

- employment of technologies and technical means which minimize soil damage during forest management activities in the forest;
- forest management methods which minimize adverse impacts on water resources.

Principle: maintenance of high conservation value forests

Principle: forest use and management planning,

including:

- development of long-, medium- and short-term forest use plans as required by the effective legislation and relevant regulations with due consideration for improved forest resources to ensure diverse yield of forest products and services;
- provision of economic expediency (efficiency) of planned operations with due consideration for available markets.

2) Summary of the Environmental Impact Assessment

Summary of the Environmental Impact Assessment should include the following sections:

(the Summary should provide sufficient details to assess environmental impacts of a proposed subproject or operation)

Project Description

- project objectives;
- overview of operational process or outputs;
- physical aspects – equipment and supplies to be used for both construction and operation of the object.

General Conditions of Impacts on the Environment, Nature and People

- brief description of most important aspects:
 - current levels of air, water and soil pollution (if applicable in the case);
 - location of settlements;
 - description of all significant biological, cultural, and other objects located in the subproject site;
 - environmental situation prior the subproject startup.

Potential Environmental Problems, Major and Secondary

Review of Subproject Alternatives and Reasons for Rejection

Compliance with the Environmental Requirements of the Russian Federation and IBRD

- list of environmental requirements (the Russian Federation and IBRD) and dates of execution thereof;
- if not all the requirements have been met, a description of measures (including a time-bound schedule) to eliminate non-compliance;
- brief description of executed Russia-specific assessment procedures and conclusions thereof.

Compliance with the Principles of Sustainable Forest Use

Summary of the Environmental Management Plan

- Environmental Mitigation Plan to eliminate/mitigate environmental impacts (issues, monitoring measures, costs, responsible persons);
- Monitoring Plan (major parameters to be monitored, costs, responsible persons);
- description of arrangements for and implementation of activities relating to environmental protection;
- major subjects of public consultations:
 - discussion of the TOR for the EIA (date, place, participants, results of the discussion);
 - discussion of the draft EIA (date, place, participants, results of the discussion).

Information on:

- conclusion of the State Ecological Expertise (if available);
- time-bound schedule and the official body to undertake the review of the subproject or operation.