

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 4802 MK

Loan Agreement

(Railways Reform Project)

between

MACEDONIAN RAILWAYS

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 10, 2006

Public Disclosure Authorized



LOAN NUMBER 4802 MK

LOAN AGREEMENT

AGREEMENT, dated February 10, 2006 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PE MACEDONIAN RAILWAYS UNLTD - SKOPJE (MACEDONIAN RAILWAYS or MR) (as defined hereinafter) (the Borrower).

WHEREAS (A) The Government of the FORMER YUGOSLAV REPUBLIC OF MACEDONIA (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), have requested the Bank to assist in the financing of the Project;

(B) by an agreement of even date herewith between the Guarantor and the Bank (the Guarantee Agreement), the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee Agreement and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes

levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(b) “Implementation Agreement” means the agreement to be entered into between the Borrower (as defined hereinafter) and the SLB (as defined hereinafter), referred to in paragraph 3 of Schedule 5 to this Agreement;

(c) “Macedonian Railways” or “MR” means PE Macedonian Railways Unltd-Skopje, the entity in charge of all railways operations in the Guarantor’s territory and established as a public enterprise by the Guarantor’s Decision No. 21-4064/1 on November 22, 1989;

(d) “Operational Manual” means the manual adopted by the Borrower referred to in paragraph 4 of Schedule 5 to this Agreement;

(e) “Procurement Plan” means the Borrower’s procurement plan, dated April 14, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(f) “PCU” means the Borrower’s project coordination unit established within the Borrower and referred to in paragraph 1 of Schedule 5 to this Agreement;

(g) “Railway Laws” means the Guarantor’s Law on Railways regulating the Guarantor’s railway sector adopted by the Guarantor and published in the Guarantor’s Official Gazette No. 64 dated August 3, 2005 and the Law on Transformation of the Public Enterprise “Macedonian Railways” adopted by the Guarantor and published in the Official Gazette No. 29/05;

(h) “Skopje Labor Bureau” or “SLB” means the Guarantor’s entity established under the Guarantor’s law for employment and insurance for unemployed published in the Official Gazette No. 37/98, in charge of providing labor related services to unemployed, referred to in paragraph 3 of Schedule 5 to this Agreement;

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

(j) “Steering Committee” means the committee with membership, tasks, functions and responsibilities satisfactory to the Bank, established pursuant to the decision (Conclusion) of the Guarantor No. 23-4850/1 on January 10, 2005, as referred to in paragraph 2 of Schedule 5 to this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifteen million Euro (B15,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project open and maintain in Euro a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be October 31, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower and the Guarantor of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to

the Loan upon not less than six (6) months' notice to the Borrower and the Guarantor of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower or the Guarantor notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, technical and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02 The Borrower shall:

(a) carry on its operations and conduct its affairs in accordance with sound administrative, financial, technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, under terms satisfactory to the Bank;

(b) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and technical practices, under terms satisfactory to the Bank; and

(c) take out and maintain with responsible insurers, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.03. (a) Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

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

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

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements,

and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 4 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely that the Railway Laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in of Section 6.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

- (a) the Operational Manual has been adopted by the Borrower in terms satisfactory to the Bank; and
- (b) the auditors referred to in Article 4.01 (b) (i) of this Agreement have been contracted by the Borrower.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Guarantee Agreement has been duly authorized and is legally binding upon in accordance with its terms.

Section 6.03. The date of ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The General Director of the Borrower, or such other person or persons as the General Director of the Borrower shall designate in writing, is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Macedonian Railways
Zeleznichka 50 B
Skopje

Facsimile

(389-2) 2462-330

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the Skopje as of the day and year first above written.

MACEDONIAN RAILWAYS

By /s/ Milco Smilevski

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Sandra Bloemenkamp

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be financed</u>
(1) Goods, Consultant Services and Training under Part A of the Project	5,988,750	100%
(2) Goods, Consultant Services and Training under Part B of the Project	8,973,750	100%
(3) Front-end fee	<u>37,500</u>	Amount due under Section 2.04 of this Agreement
TOTAL	<u>15,000,000</u>	

2. For the purposes of this Schedule, "Training" means expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including: (i) fees of consultants, including educational or other institutions; and organizations providing training services; and (ii) cost of study tours, workshops, training incentives and related travel and per diem allowances of training participants.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding B1,500,000, may be made in respect for expenditures before that date but after May 1, 2005; and (b) any expenditures for Part A.3 and Part B.3 of the Project unless the Bank has received satisfactory evidence that the Borrower has restructured itself in accordance with the Railways Laws and in a manner satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than B 75,000 equivalent per contract; (b) for services of consulting firms under contracts costing less than B75,000 equivalent per contract; and (c) services of individual consultant and training under contract costing less than B35,000, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the financial viability, productivity and effectiveness of the Borrower's railway operations.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Improving infrastructure capacity and effectiveness

1. Restructuring of the MR from the infrastructure perspective

(a) Support the restructuring and preparatory steps for the ongoing restructuring of the Macedonian Railways.

(b) Support the implementation of the Project, including provision of technical assistance and equipment for the PCU and of financing for the carrying out of auditing services.

2. Social mitigation from the infrastructure perspective

Provision of technical and financial assistance as well as incentives for the Macedonian Railways' staff made redundant as a result of its restructuring, including human resource and social services, training and counseling of such staff.

3. Mechanization and modernization

Provision of equipment necessary to carry out the Macedonian Railways' mechanization of track maintenance and infrastructure modernization.

Part B: Restructuring of operations to improve capacity and effectiveness

1. Restructuring of the MR from the operations perspective

(a) Support the restructuring and preparatory steps for the ongoing restructuring of Macedonian Railways and future privatization of the transport operations.

(b) Support the implementation of the Project, including provision of technical assistance and equipment for the PCU and of financing for the carrying out of auditing services.

2. Social mitigation from the operations perspective

Provision of technical and financial assistance as well as incentives for the Macedonian Railways' staff made redundant as a result of its restructuring, including human resource and social services, training and counseling of such staff.

3. Increasing operational capacity

Provision of equipment needed to increase the Macedonian Railways' operational capacity.

* * *

The Project is expected to be completed by April 30, 2009.

SCHEDULE 3**Amortization Schedule**

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Euro</u>)*
On each April 15 and October 15	
beginning April 15, 2011	625,000
Through October 15, 2022	625,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4**Procurement**Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Guarantor.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than B75,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant

Guidelines, the short list of consultants for services estimated to cost less than ₮75,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than ₮ 150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval by the Bank.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods and services (other than consultants' services) procured on the basis of International Competitive Bidding, or Direct Contracting; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of ₮75,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of ₮35,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain during the execution of the Project the PCU with staff and resources as shall be required to perform its duties in respect of overall management and implementation of the Project, including reporting on the implementation of the Project to the Steering Committee, in a manner satisfactory to the Bank.
2. The Borrower shall take into account the recommendations of the Steering Committee which shall provide, among others, oversight and policy guidance for the overall implementation of the Project.
3. The Borrower shall: (a) carry out Part A.2 and Part B.2 of the Project under terms and conditions set forth in an Implementation Agreement between the Borrower and SLB, under terms which shall have been agreed upon with the Bank, including, *inter alia*, provisions whereby: (i) the responsibilities and tasks of each entity involved in Part A.2 and Part B.2 of the Project are described for the purposes of Project implementation, including the transfer and use of equipment necessary to carry out Part A.2 and Part B.2 of the Project; (ii) the commitment of each entity to coordinate and cooperate in their respective activities for the purposes of the implementation of Part A.2 and Part B.2 the Project; and (iii) the entities shall be required to implement Part A.2 and Part B.2 of the Project in accordance with the Operational Manual and the relevant provisions of this Agreement; and

(b) exercise its rights under the Implementation Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Implementation Agreement or any provision thereof.
4. The Borrower shall ensure that the Project is carried out in accordance with the Operational Manual setting forth the work program for the implementation of the Project, an environmental management plan, and the key instruments for the execution and coordination of the Project, including procurement and financial management procedures and criteria for the provision of human resource services and incentives to staff made redundant as a result of the structural reforms of MR.
5. The Borrower shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 1, 2007, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 1, 2007, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

6. The Borrower shall ensure that all necessary internal processes and decisions to facilitate the establishment of the infrastructure and transport companies under the Railway Laws are carried out with due diligence and not later than three months upon the entering into force of the Railways Laws.

7. The Borrower shall, by not later than December 31, 2006, ensure the accounting separation of its passenger from freight transportation operations.

8. The Borrower shall, by not later than June 30, 2006, prepare a track access charge system acceptable to the Bank.

9. The Borrower shall prepare, by not later than March 31, each year throughout the implementation of the Project, a five year rolling national program for railways infrastructure for its infrastructure operations and shall afford the Bank an opportunity to comment on such a program.

10. The Borrower shall: (a) carry out the staff rationalization study envisaged under Part A.1 and Part B.1 of the Project under terms and conditions satisfactory to the Bank and shall ensure that it is completed by not later than December 31, 2007; and

(b) ensure that the selection process of staff to be made redundant as a result of the structural reforms of the MR shall be made in compliance with the Guarantor's laws and regulations.

11. The Borrower shall ensure that approximately 400 staff made redundant as a result of the rationalization and restructuring of MR carried out are retrenched within six months of the commissioning of the equipment acquired under Part A.3 of the Project, all in accordance with the Guarantor's laws and regulations.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means the amount of ₸1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of ₸750,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of ₸2,500,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to

paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.