

CONFORMED COPY

LOAN NUMBER 3897 CHA

Loan Agreement
(Seventh Railway Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 20, 1995

LOAN NUMBER 3897 CHA

LOAN AGREEMENT

AGREEMENT, dated December 20, 1995, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

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" of the Bank, dated January 1, 1985, with the modifications set forth below for Single Currency Loans" of the Bank, dated May 30, 1995 (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the

following additional terms have the following meanings:

(a) "Company Law" means the Company Law enacted by the Fifth Standing Committee of the Eighth National People's Congress of the Borrower, on December 29, 1993 and effective as of July 1, 1994, as the same may be amended from time to time.

(b) "MOR" means the Ministry of Railways of the Borrower and any successor thereto.

(c) "Special Account" means the account referred to in Section 2.02(b) of 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, various currencies that shall have an aggregate value equivalent to the amount of four hundred million dollars (\$400,000,000) being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the ment, an amount equal to four hundred million Dollars (\$400,000,000). Bank as of the date of such withdrawal.

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or 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 December 31, 2002 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this LIBOR Base Rate plus LIBOR Total Spread Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) 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 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the six-month period ending on the date immediately preceding each;

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next cost preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iv) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, 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 amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOR with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and technical practices and with

appropriate health, safety and environmental standards acceptable to the Bank, 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 through MOR in accordance with the Implementation Program set forth in Schedule 5 to this Agreement and take, through MOR, such other actions in respect of the Project as are set forth in said Schedule 5.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices, its railway operations and the financial condition thereof, as well as separate records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section (including those for the Special Account), and the financial statements in respect of its railway operations (balance sheets, statements of income and expenses and statements of sources and applications of funds) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of such financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank shall from time to time reasonably request.

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

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

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

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

Section 4.02. (a) Except as the Bank shall otherwise agree, the Borrower shall, through MOR:

(i) produce or cause to be produced in respect of MOR's railway transport operations, for each of its fiscal years, funds from internal sources equivalent to not less than the following percentage of the annual average of the capital expenditures incurred, or expected to be incurred, for that year, the previous fiscal year and the next following fiscal year: (A) for its fiscal year ending on December 31, 1995 and its fiscal year ending on December 31, 1996: 50%; and (B) for each of its fiscal years thereafter: 55%;

(ii) review, not later than June 30 in each of its fiscal years, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, whether the requirements set forth in subparagraph (i) of this paragraph will be met in respect of such year and the next following fiscal year and furnish to the Bank a copy of such review upon its completion; and

(iii) if any such review shows that the requirements set forth in subparagraph (i) of this paragraph would not be met for the fiscal years covered by such review, promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of railway tariffs) in order to meet such requirements.

(b) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to railway transport operations, freight surcharges in aid of construction and net non-operating income; and

(B) the sum of all expenses related to railway transport operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), and interest and other charges on debt.

(ii) The term "net non-operating income" means the difference between:

(A) revenues attributable to MOR from all sources other than those related to railway transport operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in subparagraph (ii)(A) of this paragraph.

(iii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including expenditures for capital construction, rolling stock and replacement of major equipment, related to railway operations.

(iv) Whenever, for the purposes of this Section, it shall be necessary to value, in

terms of the currency of the Borrower, interest and other charges on debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of paying such interest or other charges, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

(c) The provisions of Section 4.02 of the Loan Agreement dated April 15, 1993

between the Borrower and the Bank for a Sixth Railway Project (Loan No. 3581 CHA) are hereby amended to read as set forth in paragraphs (a) and (b) of this Section.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

197688 (TRT),
248423 (MCI),
64145 (MCI) or
82987 (TRT)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Li Daoyu

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell J. Cheetham

Regional Vice President
East Asia and Pacific

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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods:		
(a) Container transport and handling equipment	28,000,000)))))	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expen- ditures for other items procured locally
(b) Other goods	361,500,000))))	
(2) Consultants' services, training and Consultants' services, training and study tours	5,500,000 5,500,000	100% 100%
(3) Unallocated	5,000,000	
TOTAL	<hr/> 400,000,000 =====	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures (a) for goods under contracts not exceeding \$2,000,000 equivalent each, (b) for services provided under contracts awarded to consulting firms not exceeding \$100,000 equivalent each, (c) for services provided under contracts awarded to individual consultants not exceeding \$50,000 equivalent each, and (d) for training and study tours, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in (1) rationalizing the organization, management and operations of the railway subsector so as to improve the efficiency and quality of the operation of the subsector and (2) expanding and modernizing the Borrower's railway system.

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: Policy Reforms

(1) Carrying out of a program to rationalize the structure of railway operations, consisting of the: (a) preparation of measures to further enhance the suitability of the legal and regulatory framework for the governance of railway enterprises in a market economy; (b) transformation, on a pilot basis, of railway agencies selected by agreement between the Borrower and the Bank, into companies pursuant to the Company Law, and, on the basis of the Borrower's experience in implementing said transformation, development of a comprehensive strategy for the restructuring of railway operations; and (c) development of a strategy for debt and equity financing of railway operations.

(2) Carrying out of a program to develop a suitable system for the setting of railway tariffs, such system to allow for tariff adjustments based on costs of services provided, passenger congestion pricing and contract pricing of services.

(3) Carrying out of a program to improve human resource planning and management, so as to enhance labor productivity in the railway subsector.

Part B: Investments for Modernization, Expansion and Reform of the Railway System

(1) Electrification and upgrading of the Wuhan-Guangzhou railway line, through the construction of 1,050-meter siding lengths, provision of a 25 kilovolt/50 hertz electricity system, and 110 kilovolt power supply system, upgrading of signalling and telecommunications systems, reconstruction of bridges and tunnels and upgrading of maintenance depot shops.

(2) Modernization of MOR's management information system, integration of train management information systems and introduction of a pilot railway passenger reservation system, including the provision of computer hardware and software required therefor.

(3) Expansion and modernization of the trunk transmission and data telecommunications networks of the Borrower's railway through the: (a) extension and digitalization of the railway's long-distance transmission network; (b) extension of the railway's data communications network; (c) development of a video conference network; and (d) development and introduction of a telecommunications network management system.

(4) Carrying out of a pilot program to commercialize rail-based container transport operations and provide land-locked provinces with access to international trade through the provision of container transport and handling equipment and technical assistance and computer software required therefor and the leasing to selected companies of said equipment.

(5) Carrying out of pilot programs to develop strategies and techniques for the operation of railway systems in an environmentally sound manner, including provision of equipment required therefor, said programs to focus on (a) abating noise resulting from railway operations and operations of factories manufacturing railway equipment, (b) developing solid waste management strategies for railway stations, (c) developing techniques for cleaning contaminated soil in freight yards, (d) treating oily wastewater from locomotive depots, (e) upgrading an anti-epidemic center operated by MOR, (f) training railway staff in environmental impact assessment techniques, (g) developing a fuel additive for diesel locomotives to increase combustion and reduce emissions and (h) developing a strategy to dispose of styrofoam containers.

(6) Expansion of the railway system's capacity through the introduction of heavy-haul operations to the core network, consisting of the provision of electric locomotives and spare parts, testing equipment, tools and training required therefor and the raising of the axle load limit on the core railway network.

Part C: Studies and Institutional Strengthening

Carrying out of the following studies and provision of training and study tours required therefor, to assist the Borrower in preparing future railway projects:

- (1) a feasibility study of dedicated passenger rail;
- (2) a study to improve the efficiency of railway investment programming;
- (3) studies to develop a marketing information system, develop plans to expand the transport management information system developed under Part B(2) of the Project and assess new operating information systems, including a system for locomotive and rolling stock maintenance and material stock control;
- (4) a study to improve the management and operations of railways telecommunications systems;
- (5) a study to design diesel engines for heavy-haul and passenger operations, including the provision of parts required therefor;
- (6) a study to strengthen MOR's treasury functions, including provision of a computer system required therefor; and
- (7) a study to prepare an action plan to restructure and modernize the Borrower's railway manufacturing and overhaul sub-sector.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 1, 2001	7,690,000
August 1, 2001	7,965,000
February 1, 2002	8,245,000
August 1, 2002	8,540,000
February 1, 2003	8,840,000
August 1, 2003	9,155,000
February 1, 2004	9,480,000
August 1, 2004	9,815,000
February 1, 2005	10,165,000
August 1, 2005	10,525,000
February 1, 2006	10,895,000
August 1, 2006	11,285,000
February 1, 2007	11,685,000
August 1, 2007	12,095,000
February 1, 2008	12,525,000
August 1, 2008	12,970,000
February 1, 2009	13,430,000
August 1, 2009	13,905,000
February 1, 2010	14,400,000
August 1, 2010	14,910,000
February 1, 2011	15,440,000
August 1, 2011	15,985,000
February 1, 2012	16,550,000
August 1, 2012	17,140,000
February 1, 2013	17,745,000

August 1, 2013	18,375,000
February 1, 2014	19,025,000
August 1, 2014	19,700,000
February 1, 2015	20,400,000
August 1, 2015	21,120,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Date Payment Due	Payment of Principal (in Dollars)*
February 15, 2001	8,430,000
August 15, 2001	8,680,000
February 15, 2002	8,940,000
August 15, 2002	9,205,000
February 15, 2003	9,480,000
August 15, 2003	9,765,000
February 15, 2004	10,055,000
August 15, 2004	10,355,000
February 15, 2005	10,665,000
August 15, 2005	10,980,000
February 15, 2006	11,310,000
August 15, 2006	11,650,000
February 15, 2007	11,995,000
August 15, 2007	12,355,000
February 15, 2008	12,720,000
August 15, 2008	13,100,000
February 15, 2009	13,495,000
August 15, 2009	13,895,000
February 15, 2010	14,310,000
August 15, 2010	14,740,000
February 15, 2011	15,180,000
August 15, 2011	15,630,000
February 15, 2012	16,100,000
August 15, 2012	16,580,000
February 15, 2013	17,075,000
August 15, 2013	17,585,000
February 15, 2014	18,105,000
August 15, 2014	18,650,000
February 15, 2015	19,205,000
August 15, 2015	19,765,000

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

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but	0.30

not more than six years before maturity	
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures.

1. When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1(a) of this Section, the Bank's prior approval will be required for (a) a first extension of the bid validity period if the period of extension exceeds sixty (60) days and (b) any subsequent extension of the bid validity period.

2. In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in China may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Limited International Bidding

1. Locomotives may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from at least three (3) qualified suppliers eligible under the Guidelines and

in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Local Competitive Bidding

2. Goods estimated to cost the equivalent of \$500,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$20,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally in accordance with procedures acceptable to the Bank.

Shopping

3. Goods estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$10,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three (3) suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$2,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants (a) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank and (b) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c)

assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. Resettlement

The Borrower shall:

(a) take and shall cause to be taken all measures necessary to ensure that all persons displaced as a result of the Project shall be resettled in accordance with a resettlement plan, acceptable to the Bank, designed to restore or improve the living standards, earning capacity and production levels of such persons;

(b) maintain operational procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the resettlement plan referred to in paragraph (a) of this Section;

(c) prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than March 31 in each year during which resettlement activities are carried out, a report on the monitoring and evaluation activities carried out pursuant to paragraph (b) of this Section, together with any revisions proposed to be made to said resettlement plan so as to ensure that said plan shall meet the objectives set forth in paragraph (a) of this Section; and

(d) promptly introduce any such revisions to said resettlement plan as shall have been approved by the Bank.

2. Part A of the Project

The Borrower shall:

(a) carry out Part A of the Project in accordance with a time-bound action plan acceptable to the Bank;

(b) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with indicators acceptable to the Bank, the carrying out of the action plan referred to in paragraph (a) of this Section;

(c) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank not later than June 30 and December 31 in each year during which Part A of the Project is carried out, a report on the monitoring and evaluation activities performed pursuant to paragraph (b) of this Section during the preceding six (6) months, together with any revisions proposed to be made to said action plan so as to further the objectives of the Project; and

(d) promptly introduce any such revisions to said action plan as shall have been approved by the Bank.

3. Part B of the Project

In order to ensure the proper carrying out of Part B(4) of the Project, the Borrower shall:

(a) select at least two container transport companies acceptable to the Bank to which the container transport and handling equipment to be procured under said Part B(4) shall be leased;

(b) employ consultants with terms of reference, qualifications and experience acceptable to the Bank to assist it in the preparation of contractual agreements between the Borrower and said container transport companies required for the leasing and operation of said equipment on a commercial basis;

(c) furnish said agreements to the Bank promptly upon their preparation and afford the Bank a reasonable opportunity to exchange views with the Borrower thereon;

(d) thereafter, take all measures required on its part to conclude said agreements with said container transport companies, taking into account the views of the Bank on the matter; and

(e) ensure that no invitations to bid for contracts for container transport and handling equipment included in Part B(4) of the Project shall be issued unless and until the Borrower shall have concluded the agreements referred to in paragraph (d) of this Section.

4. Part C of the Project

The Borrower shall:

(a) carry out Part C of the Project in accordance with a time-bound action plan acceptable to the Bank;

(b) upon completion of each of the studies carried out under Part C of the Project, furnish to the Bank a copy thereof, together with the Borrower's recommendations based thereon; and

(c) afford the Bank a reasonable opportunity to exchange views with the Borrower on said studies and recommendations, and thereafter, promptly implement such recommendations, or cause such recommendations to be implemented, taking into account the comments of the Bank thereon.

5. Mid-term Review

Without limitation on the provisions of Sections 1, 2 and 4 of this Schedule, 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 overall 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, not later than October 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section and Sections 1, 2, and 4 of this Schedule, 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, not later than November 30, 1998 or such later date as the Bank may request, said report, 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 said report and the Bank's views on the matter.

6. Plan for Operational Phase

Without limitation upon the provisions of Article IX of the General Conditions, 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;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in

accordance with appropriate practices, taking into account the Bank's comments thereon.

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 an amount equivalent to \$20,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$8,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$100,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in

accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 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 with respect to the Project, 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.