

CONFORMED COPY

LOAN NUMBER 4648 CHA

Loan Agreement

(National Railway Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 5, 2002

LOAN NUMBER 4648 CHA

LOAN AGREEMENT

AGREEMENT, dated March 5, 2002, 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 (the Project), has requested the Bank to assist in the financing of the Project; 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 October 6, 1999) (the General Conditions) constitute an integral part of this Agreement.

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) “Affected Persons” means persons who, on account of the execution of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and “Affected Person” means any of the Affected Persons.

(b) “Category” means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) “EAP” means the Environmental Action Plan, dated March 2001, prepared by the Center of Environmental Assessment and Engineering of the Scientific Research Institute under the Railway Department of the Ministry of Railways, and referred to in paragraph 1 of Schedule 5 to this Agreement, which sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said plan, as such plan may be revised from time to time with the agreement of the Bank.

(d) “FCTIC” means the Foreign Capital and Technical Import Center within the Ministry of Railways, and any successor thereto.

- (e) “Gansu” means the Borrower’s Province of Gansu, and any successor thereto.
- (f) “Kunming Railway Administration” means the Railway Administration covering, inter alia, the territory of Yunnan Province.
- (g) “Lanzhou Railway Administration” means the Railway Administration covering, inter alia, the territory of Gansu Province.
- (h) “MOR” means the Borrower’s Ministry of Railways, and any successor thereto.
- (i) “Railway Administration” means a regional agency under the Borrower’s Ministry of Railways, responsible for the management and operations of railway services and facilities within a defined region.
- (j) “RAP” means the Resettlement Action Plan dated December 2001, prepared by the Ministry of Railways, and referred to in paragraph 2 of Schedule 5 to this Agreement, which sets out the principles and procedures governing land acquisition, resettlement, compensation and rehabilitation of Affected Persons, as well as administrative, reporting and monitoring arrangements to ensure compliance with said plan, as said plan may be revised from time to time with the agreement of the Bank.
- (k) “Shaanxi” means the Borrower’s Province of Shaanxi, and any successor thereto.
- (l) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.
- (m) “Yunnan” means the Borrower’s Province of Yunnan, and any successor thereto.
- (n) “Zhengzhou Railway Administration” means the Railway Administration covering, inter alia, the territory of Shaanxi Province.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to any of the Ministry of Railways, the Lanzhou Railway Administration and the Zhengzhou Railway Administration, as the case may be.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred sixty million Dollars (\$160,000,000).

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 Dollars 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 December 31, 2006 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said 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 Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined

by the Bank and expressed as a percentage per annum.

- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, 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 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 2.07. 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 through its Ministry of Railways with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, and railways practices, and social and environmental standards, 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. Except as the Bank shall otherwise agree, procurement of the goods 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.

Section 3.03. 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 continued achievement of the objectives 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 or cause to be maintained 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 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, 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 and accounts and 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.

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 either of the arrangements between MOR and Gansu Province and Shaanxi Province, respectively, referred to in paragraph 2 (b) of Schedule 5 to this Agreement, shall have been amended, suspended, abrogated or repealed so as to affect materially and adversely the implementation of the Resettlement Action Plan in Gansu or Shaanxi.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely the event specified in Section 5.01 of this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 arrangements between MOR and Gansu Province and Shaanxi Province, respectively, referred to in paragraph 2 (b) of Schedule 5 to this Agreement, have been duly executed on behalf of MOR and said Provinces and are legally binding on MOR and said Provinces in accordance with their respective terms.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. 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

Facsimile:
(86-10) 68 55 11 25

For the Bank:

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

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

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

PEOPLE 'S REPUBLIC OF CHINA

By /s/ Yukon Huang
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ms. Zou Jiayi
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>	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods	147,840,000	100% of foreign expenditures, 100% of local expenditures(ex-factory cost) and 75% of local expendi- tures for other items procured locally
(2) Consultants' services and training	2,000,000	100%
(3) Fee	1,600,000	Amount due under Section 2.04 of this Agreement
(4) Unallocated	8,560,000	
TOTAL	<u>160,000,000</u>	

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, provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Borrower for goods or services supplied from said region, and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be “foreign expenditures”; and

(b) the term “local expenditures” means expenditures which are not “foreign expenditures”.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$ 16,000,000, may be made in respect of Category (1) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after November 1, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent each; (b) services under contracts with consulting firms costing less than \$100,000 equivalent each; (c) services under contracts with individuals costing less than \$50,000 equivalent each; and (d) training; 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 to: (i) improve transport access to the northwest region of the country in order to support its economic growth and poverty alleviation, and (ii) restructure the management and operation of its railways.

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: Expansion of Railway Capacity

1. Upgrading and double-tracking of the existing railway line between the cities of Baoji and Lanzhou (the Bao-Lan Line), together with upgrading and construction of auxiliary facilities, including access roads, railway stations, water and power supply, and waste disposal facilities

serving said Line.

2. Provision of equipment for the Bao-Lan Line to support and improve the survey and design of said Line, its signaling and telecommunication systems, the electrification and power supply therefor, and for environmental management, operation and maintenance, including track maintenance, on said Line.
3. Provision of additional locomotives and rolling stocks for the Bao-Lan Line.
4. Carrying out a program of resettlement and rehabilitation for Affected Persons under the Project.

Part B: Railway Reform

Carrying out studies to support the design and implementation of the railways reform program, including:

1. A study to develop a cost model for the passenger transport enterprise in the Kunming Railway Administration;
2. A study on the establishment of pilot passenger transport enterprises in large Railway Administrations with sub-administrations;
3. A study on the establishment of a wagon ownership enterprise; and
4. A study on the feasibility of developing an integrated planning and costing model in support of the establishment of line-of-business operations.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	Payment of Principal (Expressed in <u>Dollars</u>) *
October 15, 2007	4,085,000

April 15, 2008	4,155,000
October 15, 2008	4,230,000
April 15, 2009	4,305,000
October 15, 2009	4,385,000
April 15, 2010	4,460,000
October 15, 2010	4,540,000
April 15, 2011	4,620,000
October 15, 2011	4,700,000
April 15, 2012	4,785,000
October 15, 2012	4,870,000
April 15, 2013	4,955,000
October 15, 2013	5,045,000
April 15, 2014	5,135,000
October 15, 2014	5,225,000
April 15, 2015	5,320,000
October 15, 2015	5,415,000
April 15, 2016	5,510,000
October 15, 2016	5,605,000
April 15, 2017	5,705,000
October 15, 2017	5,810,000
April 15, 2018	5,910,000
October 15, 2018	6,015,000
April 15, 2019	6,120,000
October 15, 2019	6,230,000
April 15, 2020	6,340,000
October 15, 2020	6,455,000
April 15, 2021	6,570,000
October 15, 2021	6,685,000
April 15, 2022	6,815,000

* 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.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the

Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

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

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Equipment for power supply, environment protection, and operation and maintenance, estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section I shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

(i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in China and such advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall

specify the deadline for such submission.

- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Borrower, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Borrower.
- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.

2. International and National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$210,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures or, in the event that such goods are readily available within the Borrower's country, on the basis of national shopping procedures, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank,

and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedure for the Selection of Consultants

Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall carry out, or cause to be carried out, the Environmental Action Plan in a manner designed to ensure that the Project is implemented in accordance with sound environmental practices and standards.

2. The Borrower shall:

(a) take, or cause to be taken, all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or of income or means of livelihood, temporarily or permanently; and

(b) through MOR, take all necessary steps, including the execution and implementation of arrangements with Gansu and Shaanxi, respectively, to ensure that within said Provinces, the compensation, resettlement and rehabilitation of all Affected Persons are carried out in accordance with the RAP, in a manner designed to improve, or at least maintain at pre-Project levels, the living standards, income earning capacity and production levels of the

Affected Persons.

3. The Borrower shall, through MOR:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of the EAP and RAP and the achievement of their respective objectives, including the engagement of experienced and qualified independent monitoring agencies acceptable to the Bank;

(b) include the results of such monitoring and evaluation activities in each report to be prepared by it and furnished to the Bank pursuant to paragraph 6 below, together with any revisions proposed to be introduced into such plans in order to achieve their respective objectives; and

(c) introduce such revisions into such plans as shall have been agreed with the Bank.

4. In regard to Part B of the Project, the Borrower shall:

(a) complete, under terms of reference acceptable to the Bank, (i) the two studies under Parts B.1 and B.2 of the Project by March 31, 2003; and (ii) the two studies under Parts B.3 and B.4 of the Project by September 30, 2003;

(b) promptly upon its completion, provide each of said studies to the Bank for its review and comments; and

(c) thereafter, implement the recommendations of each said study taking into consideration the Bank's view thereon.

5. During the period of implementation of the Project, by October 31 of each year or such other date as may be agreed with the Bank, commencing in 2002, the Borrower shall organize a seminar with the participation of all relevant agencies and departments of the Borrower and representatives of the Bank, to exchange views on the direction and pace of, and issues in, the reform of the Borrower's railways sector.

6. 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 January 31, April 30, July 31 and October 31 of each year, commencing July 31, 2002, quarterly reports integrating the results of the monitoring and evaluation activities

performed pursuant to sub-paragraph (a) of this paragraph 6, on the progress achieved in the carrying out of the Project during the calendar quarter preceding the date of said report (or in the case of the last such report furnished for each calendar year, during the preceding four calendar quarters), and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 31, 2004, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 6, 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

(d) promptly review with the Bank each such report referred to in sub-paragraphs (b) and (c) of this paragraph 6, 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.

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 \$10,000,000 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 \$4,000,000 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 \$50,000,000.

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 para-graph 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.

