

Conformed Copy

LOAN NUMBER 3885 RU

Loan Agreement

(Urban Transport Project)

between

THE RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 6, 1995

LOAN NO. 3885 RU

LOAN AGREEMENT

AGREEMENT, dated October 6, 1995, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) 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;

(B) the Cities of Cherepovets, Kostroma, Nizhny Novgorod, Novgorod, Omsk, Pskov, Rostov-on-Don, Samara, Saransk, Smolensk, Tver, Velikie Luki, Vologda and Yekaterinburg (the Participating Cities) manifested their intention to participate in the Project by furnishing the Bank with Declarations of Commitment, wherein are set forth the obligations of such Participating Cities in connection with implementation of the Project;

(C) Part A of the Project will be carried out by the Participating Cities with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Participating Cities a portion of the proceeds of the Loan as provided in this Agreement;

(D) Part C of the Project will be carried out by Autosnabsbyt with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Autosnabsbyt a portion of the proceeds of the Loan as provided in this 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" of the Bank, dated January 1, 1985, with the modifications set forth below (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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Autosnabsbyt" means a private spare parts distribution company established and operating under the laws of the Russian Federation.

(b) "MOT" means the Borrower's Ministry of Transport.

(c) "Participating Cities" mean collectively the cities of Cherepovets, Kostroma, Nizhny Novgorod, Novgorod, Omsk, Pskov, Rostov-on-Don, Samara, Saransk, Smolensk, Tver, Velikie Luki, Vologda and Yekaterinburg; "Participating City" means each and any such city.

(d) "PID" means Project Implementation Directorate established within the MOT.

(e) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to the agreement letter dated April 25, 1995 between the Borrower and the Bank.

(f) "Subsidiary Loan Agreements" means agreements to be entered into between the Borrower, Oblast Governments acting as guarantors, and Participating Cities pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements; "Subsidiary Loan Agreement" means each and any such agreement.

(g) "Autosnabsbyt Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Autosnabsbyt pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Autosnabsbyt Subsidiary Loan Agreement.

(h) "Transport Companies" means collectively the companies providing urban transport services within the administrative boundaries of each Participating City; and which have been selected as beneficiaries of the Project.

(i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(j) "UTPCC" means Urban Transport Project Coordinating Council established within the MOT for coordinating the Project implementation activities.

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 three hundred twenty nine million dollars (\$329,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the 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) Before December 31, 1995, the Borrower shall, for the purposes of the Project, open and maintain a special deposit account in a commercial 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.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2001 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 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 a six-month period ending on the date immediately preceding each

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 cost, 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.

(iii) "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."

Section 2.06. Interest and other charges shall be payable semiannually on May 1 and November 1 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:

(i) shall carry out Part B of the Project through the MOT, and Part C of the Project through Autosnabsbyt and MOT, with due diligence and efficiency and in conformity with appropriate engineering, administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project;

(ii) shall assist the Participating Cities, through the UTPCC and PID, to carry out Part A of the Project; and

(iii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause the Participating Cities to perform all their obligations set forth in the Subsidiary Loan Agreements, shall take or cause to be taken all necessary or appropriate action, including the provision of funds, facilities, services and other resources, to enable the Participating Cities to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Part B, through the MOT, and Part C of the Project, through Autosnabsbyt and MOT, in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend a portion of the proceeds of the Loan to the Participating Cities under Subsidiary Loan Agreements to be entered into between the Borrower, the Oblast Governments acting as guarantors, and the Participating Cities, under terms and conditions satisfactory to the Bank, including, without limitation, the terms and conditions set forth in Schedule 7 to this Agreement.

(d) The Borrower shall relend a portion of the proceeds of the Loan to Autosnabsbyt under a Autosnabsbyt Subsidiary Loan Agreement to be entered into between the Borrower and Autosnabsbyt, under terms and conditions which shall be acceptable to the Bank and which shall include, inter alia: (i) one year maturity; (ii) a floating rate up to the equivalent of 250 basis points above the interest rate determined in accordance with the provisions of Section 2.05 of this Agreement; (iii) foreign exchange risk borne by Autosnabsbyt; (iv) spare parts shall be procured in two bidding phases of up to the equivalent of \$25,000,000 each, provided that contracts for purchasing of spare parts under the second phase shall not be signed until the proceeds advanced to Autosnabsbyt for the first phase shall have been fully repaid to the Borrower; and (v) Autosnabsbyt to be responsible for the sale of spare parts provided under Part C of the Project to users on commercial terms.

(e) The Borrower shall exercise its rights under Subsidiary Loan Agreements and Autosnabsbyt Subsidiary Loan Agreement in such 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 Subsidiary Loan Agreements and Autosnabsbyt Subsidiary Loan Agreement or any provision thereof.

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. 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause its departments or agencies or Participating Cities, responsible for carrying out the Project or any part thereof to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the department or agencies of the Borrower, or Participating Cities 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 or payment out of the Special 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 (1) of the General Conditions, the following additional event is specified, namely, that as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Participating Cities will be able to perform its obligations under the Subsidiary Loan Agreements.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 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 Subsidiary Loan Agreements have been executed and become effective in accordance with their respective terms with respect to at least five Participating Cities; and

(b) the Borrower shall have signed a contract with a firm or firms to provide project management and procurement services to PID.

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

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance or the Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance
Ul. Ilyinka, 9
103097 Moscow
Russian Federation

Telex:

112008

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:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (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.

RUSSIAN FEDERATION

By /s/ Yuli Vorontsov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang

Acting Regional Vice President
Europe and Central Asia

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) Equipment (and associated services), materials and supplies		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) for Part A of the Project	266,200,000	
(b) for Part B of the Project	1,700,000	
(c) for Part C of the Project	50,000,000	
(2) Technical assistance, studies and training		100%
(a) for Part A(5) of the Project	6,250,000	
(b) Others	4,100,000	
(3) Refunding of Project Preparation Advance	750,000	Amount due pursuant to Section 2.02 (c) of this Agreement
TOTAL	329,000,000 =====	

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:

(a) any payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$1,500,000, may be made in respect of Categories (1)(b) and (2)(b) on account of payments made for expenditures before that date but after April 15, 1995;

(b) any payments made for expenditures under Categories (1)(a) and (2)(a) to a Participating City unless the Subsidiary Loan Agreement between the Borrower and such Participating City has become effective; and

(c) any payments made for expenditures under Category (1)(c) unless the Autosnabsbyt Subsidiary Loan Agreement has been duly signed between the Borrower and Autosnabsbyt and an opinion of counsel acceptable to the Bank, confirming that it is legally binding upon Autosnabsbyt, has been furnished 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 goods and services not exceeding \$50,000 equivalent, 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: (i) to preserve essential urban transport capacities in the Participating Cities by linking financing of urgently needed replacement vehicles and spare parts to the implementation of reforms; (ii) to strengthen the Participating Cities' urban transport sector institutions so as to improve the efficiency of passenger transport operations; (iii) to arrest the decline of urban transport services in cities throughout Russia through the provision of urgently needed spare parts for transport vehicles; and (iv) to provide restructuring advice for the domestic bus industry.

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: Assistance for Participating Cities

(1) Bus and trolleybus fleet replacement in the Participating Cities, including provision of about 1,500 diesel fueled buses, and 272 trolleybuses, all with technical specifications acceptable to the Bank.

(2) Rehabilitation of about 1000 buses, 330 trolleybuses, and 375 trams;

(3) Provision of workshop, computers and other equipment for urban transport companies;

beginning November 1, 2000 through November 1, 2011	13,710,000
And on May 1, 2012	13,670,000

* 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.

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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

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 (the Guidelines) and the following provisions of this Section as applicable.

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) Grouping of Contracts

Contracts for Part C of the Project shall be procured in two procurement groups, each group estimated to cost the equivalent of \$25,000,000. No bids shall be invited for the second procurement group until the condition of the Autosnabsbyt Subsidiary Loan Agreement referred to in Section 3.01 (d),(iv) of this Agreement shall have been fulfilled.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods, which the Bank agrees can only be purchased from a limited number of suppliers, up to an aggregate amount equivalent to \$22,000,000, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods estimated to cost the equivalent of \$300,000 or less per contract, and \$10,000,000 equivalent in aggregate, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraph 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost the equivalent of \$50,000 or less per contract, and \$6,100,000 equivalent in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods, which are of proprietary nature and costing \$1,900,000 equivalent in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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: (i) all contracts for goods awarded in accordance with procedures under Part B; and (ii) all contracts awarded in accordance with procedures under Parts C.1 and C.4, 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.

Paragraph 3 of Appendix 1 to the Guidelines shall be modified to the effect that the figure of 20% is hereby specified for purposes of said paragraph.

Section II. Employment of Consultants

1. Consultants's services shall be procured under contracts awarded in accordance with the provisions 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 thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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 individual consultants estimated to cost less than \$50,000 equivalent each. However, said exception to prior Bank review shall not apply to: (a) the terms of reference for such contracts, (b) single source selection of consulting firms, (c) to assignments of a critical nature, as reasonably determined by the Bank, (d) to 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.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the UTPCC within the MOT which shall be responsible for Project policy decisions and coordination with the Participating Cities.

2. The Borrower shall maintain PID within the MOT which shall be headed by the Project Director whose qualifications and experience shall be satisfactory to the Bank; and which shall be

staffed and shall operate in accordance with the guidelines agreed between the Borrower and the Bank. The PID shall take overall responsibility for the project implementation.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof; and

(b) not later than November 1, 1996, shall review with the Bank the progress made in the implementation of the Project, and shall take all necessary measures to execute the actions identified and agreed upon between the Bank and the Borrower during such review.

4. The Borrower shall trace and assess the effect of fare exemptions for passengers of the urban transport companies on the financial viability of urban transport companies, and, based on the results of such assessment, shall undertake measures, including those at the federal level, aimed at reducing exemptions and increasing the cost recovery ratio of urban transport companies.

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 "Authorized Allocation" means an amount equivalent to \$3,000,000 to be withdrawn from the Loan Account and deposited into the Special Accounts 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 \$500,000 until the aggregate amount of all 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 \$10,000,000.

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 Special Account of an amount or amounts determined by the Bank to be required to pay for eligible expenditures during the four months following the date of each such request, which amount shall 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 Bank shall have determined to be so required.

(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 Accounts 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, less the amount of any outstanding special commitment entered into by the Bank pursuant to section 5.02 of the General Conditions with respect to the Project, shall be 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 the 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.

SCHEDULE 7

Principal Terms and Conditions of Subsidiary Loan Agreements

The following terms and conditions shall apply for purposes of the Subsidiary Loan Agreements entered into pursuant to Section 3.02 (b) of this Agreement:

Part A: Terms

1. The principal amount of each sub-loan to a Participating City (the Participating City Sub-Loan) shall be denominated and be the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid on account of goods or services financed out of the proceeds of the Loan.

2. The Participating City shall pay interest on the principal amount of the Participating City Sub-Loan withdrawn and outstanding from time to time, at a floating rate up to the equivalent of 200 basis points above the interest rate determined in accordance with the provisions of Section 2.05 of this Agreement.

3. The amount of the Participating City Sub-Loan shall be repaid by the Participating City over a term of fifteen (15) years, inclusive of a grace period of five (5) years.

Part B: Obligations to Carry Out the Project Activities

1. The Participating City shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out, with the Borrower's assistance, the activities related to the Participating City as described in Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

2. The Participating City shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, the Participating City shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

3. (a) The Participating City shall, at the request of the Bank, exchange views with the Bank with regard to the progress

of Part A of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) The Participating City shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Loan, or the performance by the Participating City of its obligations under the Subsidiary Loan Agreement.

Part C: Financial Covenants

1. (a) The Participating City 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 Part A of the Project of the departments or agencies of the Participating City responsible for carrying out Part A of the Project.

(b) The Participating City shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year;
- (ii) furnish to the Bank and to the Borrower as soon as available, but in any case not later than six months after the end of each such year, the reports containing records and accounts referred to in paragraph (a) of this Section, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank and to the Borrower such other information concerning said records and accounts as the Bank shall from time to time reasonably request.

2. (a) Except as the Bank shall otherwise agree, the Participating City shall cause the transport companies to achieve and maintain a ratio of total revenues to its total operating expenses of not lower than 35 per cent by December 1, 1995; and 40 percent by March 31, 1996.

(b) For the purposes of this Section:

- (i) The term "total revenues" means revenues from all sources related to operations, but excluding subsidies, received by the transport companies during the preceding six months.
- (ii) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes payments, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt, incurred by the transport companies during the preceding six months, and adjusted for inflation.

Part D: Implementation Conditions

1. Not later than June 1, 1995, the Participating City shall appoint the Project Manager with such qualifications and experience satisfactory to the Bank, who shall be responsible for administration of the activities to be carried out under part A of the Project and coordination with the Borrower's implementing agencies.

2. The Participating City shall cooperate fully with the MOT as an executing agency to ensure that the purposes of the

Project will be accomplished. For this purpose, the Participating City shall nominate its representative to the UTPCC as defined in Section 1.02(j) of this Agreement.

3. Not later than June 30, 1997, the Participating City shall carry out a financial and economic review of its transport system to determine the least cost mode and the least cost type of vehicles within each mode.

4. The Participating City shall inform the Bank about any investment project for its transport system which significantly affects the financial situation of the Participating City, and shall inform the Bank of the results of relevant feasibility studies in order to enable the Bank to provide its opinion regarding the project.

5. Not later than June 1, 1996, the Participating City shall adopt an action plan, reviewed by PID and agreed with the Bank, to introduce contractual arrangements aiming at improving the operating efficiencies of transport companies, reducing their costs and overall level of subsidies.

6. Not later than December 31, 1995, the Participating City shall complete divestiture of city bus operations from inter-city bus operations.

7. The Participating City shall take all the necessary measures to support provision of transport services by private individuals or companies, to encourage wider provision of urban transport services.

8. Not later than September 1, 1996, the Participating City shall prepare plans for entering into contractual arrangements with entities other than transport companies to provide urban transport services or auxiliary services.

