

CONFORMED COPY

LOAN NUMBER 4170 TM

Loan Agreement

(Urban Transport Project)

between

TURKMENISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 29, 1997

LOAN NUMBER 4170 TM

LOAN AGREEMENT

AGREEMENT, dated May 29, 1997, between TURKMENISTAN (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 Bank has received a letter dated June 4, 1996, from the Borrower describing a program of actions, objectives and policies (the Program) for the urban transport sector and declaring the Borrower's commitment to the execution of the Program; 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, with the modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been

suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled."

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) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated September 20, 1996 and November 12, 1996, between the Borrower and the Bank;

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

(c) "APAPO" means the Ashghabat Passenger Autotransport Production Organization established and operating pursuant to Decree No. 5 of the Cabinet of Ministers of the Borrower, dated November 11, 1996, and Registration Certificate No. 10422, dated January 13, 1997;

(d) "PMG" means the Project Management Group, established within APAPO and to be maintained in accordance with the provisions of paragraph 5(a) of Schedule 5 to this Agreement;

(e) "OSG" means the Operations Support Group, established within APAPO and to be maintained in accordance with the provisions of paragraph 5(b) of Schedule 5 to this Agreement;

(f) "Ashghabat Administration Agreement" means the agreement to be entered into between the Borrower, the Municipality of Ashghabat and APAPO in accordance with the provisions of Section 3.01 (c)(i) of this Agreement, as the same may be amended from time to time;

(g) "Mary Administration Agreement" means the agreement to be entered into between the Borrower, APAPO and the Municipality of Mary, in accordance with the provisions of Section 3.01 (c)(ii) of this Agreement, as the same may be amended from time to time;

(h) "Chardjou Administration Agreement" means the agreement to be entered into between the Borrower, APAPO and the Municipality of Chardjou, in accordance with the provisions of Section 3.01 (c)(iii) of this Agreement, as the same may be amended from time to time;

(i) "Administration Agreements" means collectively the Ashghabat Administration Agreement, the Mary Administration Agreement and the Chardjou Administration Agreement;

(j) "Action Plan" means the plan of actions, included in the Program, required to realize the Project objectives, as the same may be amended from time to time with the agreement of the Bank;

(k) "OIP" means the Operations Improvement Plan, included in the Action Plan, identifying required improvements in urban transport systems and practices, and to be developed by MOAT and APAPO for each Municipality under the Project, as the same may be amended from time to time with the agreement of the Bank;

(l) "MOAT" means the Borrower's Ministry of Auto Transport;

(m) "Ashghabat Transport Companies" means collectively: (i) the Ashghabat Bus Company established and operating pursuant to Decree of the MOAT No. N-209, dated December 12, 1991, and Registration Certificate No. 8533, dated March 2, 1994; (ii) the Ashghabat Trolleybus Company established and operating pursuant to Decree of the Cabinet of Ministers No. N-8740, dated August 13, 1964, and Registration Certificate No. 124, dated January 17, 1994; and (iii) the Ashghabat Minibus Company established and operating pursuant to Decree of the MOAT No. 66, dated October 1, 1994, and Registration Certificate No. 9318, dated April 18, 1995;

(n) "Mary Transport Company" means the Mary Bus Company established and operating pursuant to Decree of the MOAT No. 9, dated April 1, 1994, and Registration Certificate No. 88857, dated June 14, 1994;

(o) "Chardjou Transport Company" means the Chardjou Bus Company established and operating pursuant to Decree of the MOAT No. N-129, dated July 14, 1977, and Registration Certificate No. 105115, dated January 23, 1994;

(p) "Participating Transport Companies" means collectively: (i) the Ashghabat Transport Companies; (ii) the Mary Transport Company; and (iii) the Chardjou Transport Company;

(q) "Ashghabat Performance Contract" means the contract to be concluded between APAPO and each of the Ashghabat Transport Companies in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement;

(r) "Mary Performance Contract" means the contract to be concluded between APAPO and the Mary Transport Company in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement;

(s) "Chardjou Performance Contract" means the contract to be concluded between APAPO and the Chardjou Transport Company in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement;

(t) "Performance Contract" means any of the Ashghabat Performance Contracts, the Mary Performance Contract or the Chardjou Performance Contract;

(u) "Ashghabat Service Contract" means the contract to be concluded between the Municipality of Ashghabat and APAPO in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement;

(v) "Mary Service Contract" means the contract to be concluded between the Municipality of Mary and APAPO in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement;

(w) "Chardjou Service Contract" means the contract to be concluded between the Municipality of Chardjou and APAPO in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement;

(x) "Service Contract" means any of the Ashghabat Service Contracts, the Mary Service Contract or the Chardjou Service Contract; and

(y) "Ashghabat Auto-Maintenance and Repair Facility" means the facility, located in the Municipality of Ashghabat, for repairs of buses, established and operating pursuant to Decree of the MOAT No. N-113, dated April 14, 1946, and Registration Certificate No. 8642, dated March 24, 1994.

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 thirty-four million two hundred thousand Dollars (\$34,200,000).

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 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 bank, acceptable to the 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.

(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 canceled.

Section 2.03. The Closing Date shall be December 31, 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 percent ($3/4$ 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 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 2.06 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) one half of one percent ($1/2$ 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 2.05, 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 the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The 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 May 15 and November 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 or cause the Project to be carried out under the overall supervision of its MOAT with due diligence and efficiency and in conformity with appropriate urban transport, environmental, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

(c) The Borrower shall enter into an Administration Agreement with each of: (i) the Municipality of Ashghabat and APAPO; (ii) the Municipality of Mary and APAPO; and (iii) the Municipality of Chardjou and APAPO, under terms and conditions, satisfactory to the Bank, including those set forth in paragraph 2 of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Administration Agreements 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 the Administration Agreements 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. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall: (i) 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 and (ii) cause APAPO and the Participating Transport Companies to maintain records and accounts adequate to reflect in accordance with sound accounting practices: (A) their operations and financial conditions; and (B) the operations, resources and expenditures in respect of the Project.

(b) The Borrower shall and shall cause APAPO and the Participating Transport Companies to:

(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:
 - (A) certified copies of APAPO's and the Participating Transport Companies' 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 and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) Without limitation upon the provisions of paragraph (b) above, the Borrower shall cause APAPO and each of the Participating Transport Companies to: (i) furnish to the Bank on a quarterly basis until June 30, 1998, its income statement and balance sheets, prepared on the basis of its and the Borrower's accounting standards and policies; (ii) ensure the preparation of the annual audit referred to in paragraph (b) (ii) (B) above in accordance with standards acceptable to the Bank; and (iii) furnish to the Bank starting by October 1, 1997 quarterly statements with respect to the accounts referred to in Section 4.01(a) (ii) (B).

(d) 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 (1) of the General Conditions, the following additional events are specified:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of APAPO or any of the Participating Transport Companies or for the suspension of their operations.

(c) The Borrower, APAPO or the Municipalities of Ashghabat, Mary or Chardjou shall have failed to carry out any of their respective obligations under the Ashghabat Administration Agreement, the Mary Administration Agreement or the Chardjou Administration Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified: any event specified in paragraphs (b) or (c) of 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 Ashghabat Administration Agreement has been concluded among the Borrower, the Municipality of Ashghabat and APAPO in accordance with the provisions of Section 3.01 (c)(i) of this Agreement;

(b) the Borrower has employed, pursuant to Section II of Schedule 4 to this Agreement, consultants to assist APAPO, MOAT and the Municipality of Ashghabat in carrying out the activities under the Project;

(c) the Borrower has improved cost recovery with respect to bus and trolleybus operations to not less than 40 percent for each, excluding depreciation, as an average over a two month period;

(d) an Ashghabat Performance Contract has been concluded between APAPO and each of the Ashghabat Transport Companies in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement;

(e) the Ashghabat Service Contract has been concluded between the Municipality of Ashghabat and APAPO in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement; and

(f) the Borrower has submitted to the Bank a business plan, satisfactory to the Bank, for the operation of the Ashghabat Auto-Maintenance and Repair Facility.

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

Section 6.03. 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 Deputy Chairman of the Cabinet of Ministers of the Borrower, specially authorized for this purpose by the Cabinet of Ministers 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:

Cabinet of Ministers
17 Bitarap Turkmenistan St.
Ashghabat,
Turkmenistan - 744000

Telex:

16201 (MEKAN)

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 248423 (MCI) or
 Washington, D.C. 64145 (MCI)

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.

TURKMENISTAN

By /s/ Yukon Huang

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Halil Ugur

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 Dollars)	% of Expenditures to be Financed
(1) Goods		100% of foreign expenditures,
(a) under Part A(1) and B(1)(a) of the Project	21,180,000	100% of local expenditures (ex-factory cost)
(b) under Part A(2) and B(2)(a) of the Project	2,500,000	and 85% of local expenditures for other items
(c) under Part A(3) and B(2)(b) of the Project	2,400,000	procured locally
(d) under Part B(1) (b) of the Project	2,000,000	
(2) Consultants' services	590,000	100%
(3) Training	300,000	100%
(4) Refunding of Project Preparation Advance	600,000	Amounts due pursuant to Section 2.02 (c) of this Agreement

(5) Unallocated	4,630,000
TOTAL	34,200,000

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: (a) prior to the date of this Agreement; (b) under Category 1(b), set forth in the table in paragraph 1 of this Schedule, until: (i) the Borrower has submitted to the Bank in relation to the Municipality of Mary a policy statement including OIP, investment program and Project implementation arrangements, satisfactory to the Bank; (ii) the Mary Administration Agreement has been concluded in accordance with the provisions of paragraph 2 of Schedule 5 to this Agreement; (iii) the Bank has received an opinion or opinions that the Mary Administration Agreement has been duly executed by the parties thereto and is legally binding upon them in accordance with its terms; (iv) the Mary Performance Contract has been concluded in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement; and (v) the Mary Service Contract has been concluded in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement; (c) under Category 1(c), set forth in the table in paragraph 1 of this Schedule, until: (i) the Borrower has submitted to the Bank in relation to the Municipality of Chardjou a policy statement including OIP, investment program and Project implementation arrangements, satisfactory to the Bank; (ii) the Chardjou Administration Agreement has been concluded in accordance with the provisions of paragraph 2 of Schedule 5 to this Agreement; (iii) the Bank has received an opinion or opinions that the Chardjou Administration Agreement has been duly executed by the parties thereto and is legally binding upon them in accordance with its terms; (iv) the Chardjou Performance Contract has been concluded in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement; and (v) the Chardjou Service Contract has been concluded in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement; and (d) under Category 1(d), set forth in the table in paragraph 1 of this Schedule, until the Borrower has submitted to the Bank feasibility studies, including an implementation plan, satisfactory to the Bank, for the automatic vehicle location and monitoring system and the ticketing system under the OIP for the Municipality of Ashghabat.

4. The Bank may require, under such terms and conditions as the Bank shall specify by notice to the Borrower, 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 \$400,000 equivalent each with the exception of: (i) goods under contracts awarded on the basis of international competitive bidding procedures; (ii) the first contract for goods awarded on the basis of international shopping procedures; and (iii) goods under contracts awarded on the basis of direct contracting procedures; and (b) services under contracts costing less than \$100,000 equivalent each for consulting firms and \$50,000 equivalent each for individual consultants.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve, on a sustainable basis, the efficiency and cost effectiveness of urban transport in the Municipalities of Ashghabat, Mary and Chardjou.

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: Transport Vehicles

Provision of new buses and trolleybuses for: (1) the Municipality of Ashghabat; (2) the Municipality of Mary; and (3) the Municipality of Chardjou.

Part B: Maintenance and Rehabilitation

(1) (a) Upgrading of maintenance facilities and equipment, replenishment of spare parts and rehabilitation and refurbishment of buses, trolleybuses and minibuses operated by the Ashghabat Transport Companies; and (b) provision of equipment required for implementation of the OIP.

(2) Rehabilitation of buses and replenishment of spare part inventory, workshop tools and equipment for: (a) the Municipality of Mary; and (b) the Municipality of Chardjou.

Part C: Technical Assistance and Training

Provision of technical assistance and training for the strengthening of Project management and implementation capabilities of the PMG, APAPO, MOAT, and the Municipality of Ashghabat.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)*
November 15, 2002	725,000
May 15, 2003	745,000
November 15, 2003	765,000
May 15, 2004	790,000
November 15, 2004	815,000
May 15, 2005	835,000
November 15, 2005	860,000
May 15, 2006	885,000
November 15, 2006	915,000
May 15, 2007	940,000
November 15, 2007	970,000
May 15, 2008	995,000
November 15, 2008	1,025,000
May 15, 2009	1,055,000
November 15, 2009	1,090,000
May 15, 2010	1,120,000
November 15, 2010	1,155,000
May 15, 2011	1,190,000
November 15, 2011	1,225,000
May 15, 2012	1,260,000
November 15, 2012	1,295,000
May 15, 2013	1,335,000
November 15, 2013	1,375,000
May 15, 2014	1,415,000
November 15, 2014	1,455,000
May 15, 2015	1,500,000
November 15, 2015	1,545,000
May 15, 2016	1,590,000
November 15, 2016	1,635,000
May 15, 2017	1,695,000

* 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 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 and revised in January and August 1996 (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 provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part 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. International Shopping

Spare parts estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent and workshop, computer and other tools and equipment estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$1,800,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Spare parts estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, and workshop, computer and other tools and equipment estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, 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.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment and costing \$700,000 equivalent or less 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 and works 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

(a) With respect to each contract for goods to be procured on the basis of international competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods to be procured on the basis of international shopping procedures, and (ii) all contracts for goods to be procured on the basis of direct contracting procedures, the following procedures shall apply:

- (A) prior to the selection of any supplier under shopping procedures the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;

- (B) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract;
- (C) in addition, the procedures set forth in paragraphs 2 (f) and 2 (g) 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

1. Consultants' 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, such contracts shall be based on 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 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. The Project will be carried out by the Borrower's MOAT, Municipality of Ashghabat, Municipality of Mary, Municipality of Chardjou, APAPO and the Participating Transport Companies, all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Municipality of Ashghabat, Municipality of Mary, Municipality of Chardjou, APAPO and the Participating Transport Companies, the goods and services financed by the Loan, on terms and conditions set forth in this Agreement.

2. Each of the Administration Agreements shall include, inter alia, provisions for: (a) the undertakings of each Municipality in respect of Project and Program implementation and maintenance of Project accounts; (b) the procurement arrangements under the Project; (c) in relation to the Ashghabat Administration Agreement: (i) budgets, records and accounts and performance obligations of APAPO and the role of the Municipality of Ashghabat in supervising the performance of the Ashghabat Transport Companies; and (ii) the obligation of APAPO to enter into an Ashghabat Performance Contract with each of the Ashghabat Transport Companies and the Ashghabat Service Contract with the Municipality of Ashghabat in accordance with the provisions of paragraphs 3 and 4 below, respectively; (d) in relation to the Mary Administration Agreement: (i) budgets, records and accounts and performance obligations of APAPO and the role of the Municipality of Mary in supervising the performance of the Mary Transport Company; and (ii) the obligation of APAPO to enter into the Mary Performance Contract with the Mary Transport Company and the Mary Service Contract with the Municipality of Mary in accordance with the provisions of paragraphs 3 and 4 below, respectively; (e) in relation to the Chardjou Administration Agreement: (i) budgets, records and accounts and performance obligations of APAPO and the role of the Municipality of Chardjou in supervising the performance of the Chardjou Transport Company; and (ii) the obligation of APAPO to enter into the Chardjou Performance Contract with the Chardjou Transport Company and the Chardjou Service Contract with the Municipality of Chardjou in accordance with the provisions of paragraphs 3 and 4

below, respectively; (f) annual review of the progress in the implementation of the Administration Agreement, the first such review to be held no later than August 31, 1998; and (g) modifications to the Administration Agreement, with the Bank's prior approval, when such modifications are deemed necessary on the basis of the annual review.

3. Each Performance Contract to be concluded between APAPO and each of the Participating Transport Companies shall include, inter alia, provisions for: (a) the undertakings of each Participating Transport Company in respect of Project and OIP implementation; (b) the service levels to be provided by such Company; (c) the methodology for tariff determination; (d) criteria for measuring operational and financial performance of each Participating Transport Company; (e) the obligations of said Companies in relation to the maintenance of facilities and the equipment; (f) the information to be provided by said Companies for the purpose of measuring progress in Project implementation and the achievement of Project objectives; (g) an annual review of the progress in the implementation of the Performance Contract, the first such review to be held no later than August 31, 1998; and (h) modifications to the Performance Contract, with the Bank's prior approval, when such modifications are deemed necessary on the basis of the annual review.

4. Each Service Contract to be concluded between each Municipality and APAPO shall include, inter alia, provisions regarding agreed criteria and standards with respect to: (a) identification of service areas; (b) estimation of the cost of services; (c) evaluation of performance of each Participating Transport Company; (d) annual review of the progress in the implementation of the Service Contract, the first such review to be held no later than August 31, 1998; and (e) modifications to the Service Contract, with the Bank's prior approval, when such modifications are deemed necessary on the basis of the annual review.

5. The Borrower shall maintain: (a) the PMG, until completion of the Project, under terms of reference satisfactory to the Bank, and assign to it responsibility for overall Project implementation; (b) the OSG, until completion of the Project, under terms of reference satisfactory to the Bank, and assign to it responsibility to guide and monitor the performance of the Participating Transport Companies.

6. The Borrower shall: (a) implement the Action Plan included in the Program in accordance with the time schedule set forth therein; and (b) exchange views with the Bank regularly on the implementation of such Plan with a view to agreeing on any adjustments required to such Plan in order to achieve the objectives of the Program and the Project.

7. The Borrower shall develop by June 30, 1997, a fare system whereby the Participating Transport Companies are compensated directly by the municipality or agency exempting passengers from transportation fares.

8. During Project implementation, before undertaking any investments in the urban passenger transport sector, the Borrower shall ensure: (a) the carrying out by the Municipality of Ashghabat, under terms of reference satisfactory to the Bank, of studies on urban passenger transport investments, and the completion and furnishing to the Bank of the findings and recommendations of said studies before commencement of said investments; and (b) exchange views thereafter with the Bank on said recommendations with a view to determining an appropriate order of priority for transport investments.

9. During Project implementation the Borrower shall: (a) make adequate yearly budget allocations from the central state budget for the required subsidy to APAPO; and (b) quarterly payments of said subsidy to APAPO.

10. The Borrower shall take all measures, including adjustment of public transport fares, necessary to ensure that by December 31, 1999, each of the Participating Transport Companies shall generate revenues sufficient to cover at least its operation and maintenance costs, excluding depreciation.

11. 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 September 30, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this

Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by December 31, 1998, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 equal to \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$200,000 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 \$3,000,000.

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.

