

No. 9892

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
REPUBLIC OF CHINA**

Loan Agreement—*Third Railway Project* (with annexed General Conditions applicable to Loan and Guarantee Agreements and Project Agreement between the Bank and the Province of Taiwan and the Taiwan Railway Administration). Signed at Washington on 29 May 1969

Authentic text : English.

Registered by the International Bank for Reconstruction and Development on 27 September 1969.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
RÉPUBLIQUE DE CHINE**

Contrat d'emprunt — *Troisième projet relatif aux chemins de fer* (avec, en annexe, les Conditions générales applicables aux Contrats d'emprunt et de garantie et le Contrat relatif au Projet entre la Banque, la Province de Taïwan et l'Administration des chemins de fer de Taïwan). Signé à Washington le 29 mai 1969

Texte authentique : anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 27 septembre 1969.

LOAN AGREEMENT¹

AGREEMENT, dated May 29, 1969, between REPUBLIC OF CHINA (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS the Borrower and the Taiwan Railway Administration (hereinafter called TRA), an agency of the Province of Taiwan (hereinafter called the Province) entrusted with the administration and operation of the Borrower's railway facilities in the Province have requested the Bank to assist in the financing of part of the first two years of TRA's Investment Plan 1969-1972;

WHEREAS TRA will, with the Borrower's assistance, carry out such Plan, and, as part of such assistance, the Borrower will make available to TRA the proceeds of the loan provided for herein; and

WHEREAS the Bank is willing to make a loan available on the terms and conditions provided herein and in a project agreement of even date herewith between the Bank, the Province and TRA;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969,² with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions) :

(a) by the insertion in Section 6.06 of the words "the Project Agreement," after the words "these General Conditions,"; and

(b) by the insertion in Section 9.03 of the words "or the Project Agreement" after the words "the Loan Agreement".

¹ Came into force on 22 August 1969, upon notification by the Bank to the Government of the Republic of China.

² See p. 300 of this volume.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings :

(a) "Project Agreement" means the agreement of even date herewith¹ between the Bank, the Province and TRA, as the same may be amended from time to time by agreement between the Bank, the Province and TRA;

(b) "Subsidiary Loan Agreement" means the loan agreement, referred to in Section 5.02 (a) of this Agreement, to be entered into between the Borrower and TRA;

(c) "1965 Loan Agreement"² means the loan agreement dated April 28, 1965 (*First Railway Project*) between the Borrower and the Bank;

(d) "1965 Project Agreement"³ means the project agreement dated April 28, 1965 (*First Railway Project*) between the Bank, the Province and TRA;

(e) "1968 Loan Agreement"⁴ means the loan agreement dated January 18, 1968 (*Second Railway Project*) between the Borrower and the Bank;

(f) "1968 Project Agreement"⁵ means the project agreement dated January 18, 1968 (*Second Railway Project*) between the Bank, the Province and TRA; and

(g) "Investment Plan 1969-1972" means the investment plan set forth in Annex A of a letter of even date herewith from the Province and TRA to the Bank and shall include any amendment to be agreed from time to time between the Borrower, TRA and the Bank.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to thirty-one million two hundred thousand dollars (\$31,200,000).

Section 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan.

¹ See p. 342 of this volume.

² United Nations, *Treaty Series*, vol. 549, p. 145.

³ *Ibid.*

⁴ *Ibid.*, vol. 646, p. 193.

⁵ *Ibid.*

(b) The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Loan Agreement and in accordance with the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Bank.

Section 2.03. The Borrower shall be entitled to withdraw from the Loan Account :

(a) such amounts as shall have been paid (or, if the Bank shall so agree, as shall be required to meet payments to be made) for the reasonable foreign exchange cost of goods or services required for the Project and to be financed under this Loan Agreement; and

(b) such amounts as shall have been paid (or, if the Bank shall so agree, as shall be required to meet payments to be made) for such portion of the reasonable cost of goods required for the Project, to be financed under this Loan Agreement and procured in Taiwan, representing the foreign exchange cost of the imported materials, supplies or components for such goods.

For the purposes of subsection (b) hereof, clause (b) of Section 5.01 of the General Conditions shall not apply.

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

Section 2.05. The Borrower shall pay interest at the rate of six and one-half per cent ($6\frac{1}{2}$ %) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Article III

USE OF PROCEEDS OF LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied in accordance with the provisions of this Loan Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, (i) the goods and services to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 4 to this Agreement or as shall be agreed between the Borrower and the Bank, and (ii) contracts for the procurement of such goods and services shall be subject to the prior approval of the Bank.

Section 3.03. Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 4.02. The Minister of Finance of the Borrower and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall cause the Project to be carried out and the operations of the railway facilities administered by TRA to be conducted with due diligence and efficiency and in conformity with sound railway, engineering and financial practices.

(b) The Borrower shall cause the Province and TRA punctually to perform all the covenants and agreements on their part to be performed as set forth in the Project Agreement, shall take all action which shall be necessary to enable the Province and TRA to perform such covenants and agreements and shall not take any action that would interfere with such performance.

Section 5.02. (a) The Borrower shall enter into a Subsidiary Loan Agreement with TRA, satisfactory to the Bank, which shall provide for the relending of the proceeds of the Loan by the Borrower to TRA and shall contain appropriate provisions with respect to the financing and carrying out of the Project and other obligations of the Borrower under the Loan Agreement and of TRA under the Project Agreement.

(b) Except as the Bank shall otherwise agree, the Borrower shall not amend, assign, abrogate or waive any provisions of the Subsidiary Loan Agreement.

Section 5.03. (a) It is the mutual understanding of the Borrower and the Bank that TRA and the Province are primarily responsible for the provision of funds required for the Project.

(b) Without limitation or restriction upon any of the other covenants on its part in this Loan Agreement contained, the Borrower shall, whenever there is reasonable cause to believe that the funds available to TRA will be inadequate to meet the estimated expenditures required for carrying out the Project, make arrangements, satisfactory to the Bank, promptly to provide TRA or cause TRA to be provided with such funds as are necessary to meet such expenditures.

Section 5.04. (a) The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

Section 5.05. It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any

assets of the Borrower as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Borrower" as used in this Section includes assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower or of any such political subdivision, including the Central Bank of China, or any other institution performing the functions of a central bank.

Section 5.06. Unless otherwise agreed between the Borrower and the Bank, if TRA shall repay in advance of maturity any part or all of its indebtedness under the Subsidiary Loan Agreement, the Borrower shall repay, in advance of maturity, an equivalent amount of the Loan. All the provisions of the General Conditions relating to repayment in advance of maturity shall apply to any repayment by the Borrower in accordance with this Section; provided, however, that any amount of the Loan to be repaid pursuant to the foregoing provisions of this Section which cannot be applied to the payment of an entire maturity may, notwithstanding the provisions of Section 3.05 (b) of the General Conditions, be applied to the payment of a part of a maturity only.

Section 5.07. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from any taxes, and free from all restrictions, imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 5.08. The Loan Agreement, the Bonds and the Project Agreement shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries

in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 5.09. (a) Except as the Bank shall otherwise agree, the Borrower shall from time to time take or cause to be taken all necessary measures (including, but without limitation, adjustments of the tariff structure and rates of TRA), satisfactory to the Bank as shall be required to provide TRA with revenues sufficient :

- (i) to produce an annual rate of return of not less than 6.5 % for TRA's fiscal years 1969 and 1970 and of not less than 7 % thereafter on the value of TRA's net fixed assets in operation; and
- (ii) to enable TRA out of internally generated resources :
 - (A) to meet interest on and amortization of debt ;
 - (B) to maintain adequate working capital ;
 - (C) to establish and maintain reserves adequate to meet contingencies ; and
 - (D) to finance a reasonable proportion of its capital expenditures including replacement of assets.
- (b) For the purposes of this Section :
 - (i) The annual rate of return shall be calculated by relating the operating income for the year in question to the average of the value of the net fixed assets of TRA in operation at the beginning and at the end of each year.
 - (ii) The term "value of net fixed assets in operation" shall mean the gross book value of such assets, less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation acceptable to the Bank.
 - (iii) The term "operating income" shall mean the difference between :
 - (A) gross operating revenue accruing from TRA's services ; and
 - (B) the operating and administration expenses, taxes (if any), adequate maintenance and depreciation but excluding interest and other charges on debt and contributions to the Province.
 - (iv) The assets administered by TRA shall be deemed to be assets of TRA.

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event specified in Section 7.01 of the General Conditions or in Section 6.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, together with the interest and other charges thereon, and upon any such declaration such principal, together with the interest and other charges thereon shall become due and payable immediately, anything to the contrary in this Loan Agreement or in the Bonds notwithstanding.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified :

- (a) A default shall have occurred in the performance of any covenant or agreement on the part of the Province or TRA under the Project Agreement and such default shall have continued for a period of sixty days after notice thereof shall have been given by the Bank to the Province or TRA as the case may be; and
- (b) A default shall have occurred under the 1965 Loan Agreement or the 1968 Loan Agreement other than in respect of the payment of the principal or interest or any other payment required thereunder and such default shall have continued for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

Article VII

MODIFICATION OF 1965 LOAN AGREEMENT AND 1968 LOAN AGREEMENT

Section 7.01. For the purposes of the 1965 Loan Agreement :

(a) Section 6.01 is amended by the deletion of the words "or in paragraph (a) of Section 6.02" and the substitution therefor of the words "or in paragraph (a) or paragraph (c) of Section 6.02".

(b) Section 6.02 of the said Agreement is amended by the addition of a new subsection (c) :

- "(c) A default shall have occurred under the loan agreement dated January 18, 1968 (*Second Railway Project*) or the loan agreement dated May 29, 1969 (*Third Railway Project*), both between the Borrower and the Bank, other than in respect of the

payment of the principal or interest or any other payment required thereunder.”

(c) Section 5.10 of the said Agreement is amended by the deletion of the provisions thereof and the substitution therefor of the provisions of Section 5.09 of this Agreement.

Section 7.02. For the purposes of the 1968 Loan Agreement :

(a) Section 6.02 of the said Agreement is amended by the deletion of the provisions thereof and the substitution therefor of the following new Section :

“SECTION 6.02. Pursuant to paragraph (i) of Section 5.02 of the Loan Regulations, the following are specified as additional events for the purposes of said Section :

“(a) A default shall have occurred in the performance of any covenant or agreement of the Province or TRA under the Project Agreement; and

“(b) A default shall have occurred under the loan agreement dated April 28, 1965 (*First Railway Project*) or the loan agreement dated May 29, 1969 (*Third Railway Project*), both between the Borrower and the Bank, other than in respect of the payment of the principal or interest or any other payment required thereunder.”

(b) Section 5.09 of said Agreement is amended by the deletion of the provisions thereof and the substitution therefor of the provisions of Section 5.09 of this Agreement.

Article VIII

EFFECTIVE DATE; TERMINATION

Section 8.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 11.01 (c) of the General Conditions :

- (a) that the execution and delivery of the Project Agreement on behalf of the Province and TRA have been duly authorized or ratified by all necessary corporate and governmental action; and
- (b) that the Subsidiary Loan Agreement has been duly executed in form satisfactory to the Bank and has become binding upon the parties thereto in accordance with its terms.

Section 8.02. The following are specified as additional matters, within the meaning of Section 11.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank :

- (a) that the Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Province and TRA, that all acts, consents and approvals necessary therefor have been duly and validly performed or given, and that such Project Agreement constitutes a valid and binding obligation of the Province and TRA in accordance with its terms; and
- (b) that the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the parties thereto, that all acts, consents and approvals necessary therefor have been duly and validly performed or given, and that such Subsidiary Loan Agreement constitutes a valid and binding obligation of the parties thereto in accordance with its terms.

Section 8.03. The date of August 31, 1969 is hereby specified for the purposes of Section 11.04 of the General Conditions.

Article IX

MISCELLANEOUS

Section 9.01. The Closing Date shall be June 30, 1972, or such later date as shall be agreed between the Borrower and the Bank.

Section 9.02. The Minister of Finance of the Borrower is designated for the purposes of Section 10.03 of the General Conditions.

Section 9.03. The following addresses are specified for the purposes of Section 10.01 of the General Conditions :

For the Borrower :

Ministry of Finance
Taipei
Taiwan, China

Alternative address for cables :

Chifinance
Taipei

For the Bank :

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

Alternative address for cables :

Intbafrad
Washington, D.C.

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

Republic of China :

By Martin WONG

Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP

Vice President

SCHEDULE 1

ALLOCATION OF PROCEEDS OF LOAN

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
1. 18 Diesel Electric Locomotives (West Line)	4,000,000
2. 268 Passenger Cars (West Line)	12,600,000
3. 600 Freight Cars (West Line)	5,800,000
4. 130 Bogies for Passenger Cars (West Line)	500,000
5. 15 Trailers (East Line)	600,000
6. Rails and fittings, switches, rail welding equipment for track doubling and strengthening and bridge steel	2,700,000
7. Signalling and level crossing warning equipment	1,000,000
8. Workshop Equipment	1,300,000
9. Freight Handling Equipment	300,000
10. Technical Services and Training	300,000
11. Unallocated	2,100,000
TOTAL	<u>31,200,000</u>

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in any of the Categories 1 to 10 shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be reallocated by the Bank to Category 11.

2. If the estimate of the cost of the items included in any of the Categories 1 to 10 shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category from Category 11, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories.

SCHEDULE 2

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
December 15, 1972.	830,000	June 15, 1979.	1,255,000
June 15, 1973.	855,000	December 15, 1979.	1,295,000
December 15, 1973.	885,000	June 15, 1980.	1,340,000
June 15, 1974.	910,000	December 15, 1980.	1,380,000
December 15, 1974.	940,000	June 15, 1981.	1,425,000
June 15, 1975.	970,000	December 15, 1981.	1,475,000
December 15, 1975.	1,005,000	June 15, 1982.	1,520,000
June 15, 1976.	1,035,000	December 15, 1982.	1,570,000
December 15, 1976.	1,070,000	June 15, 1983.	1,620,000
June 15, 1977.	1,105,000	December 15, 1983.	1,675,000
December 15, 1977.	1,140,000	June 15, 1984.	1,730,000
June 15, 1978.	1,175,000	December 15, 1984.	1,780,000
December 15, 1978.	1,215,000		

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1 %
More than three years but not more than six years before maturity	2 ¹ / ₄ %
More than six years but not more than eleven years before maturity	3 ³ / ₄ %
More than eleven years but not more than thirteen years before maturity	5 ¹ / ₄ %
More than thirteen years before maturity	6 ¹ / ₂ %

SCHEDULE 3

DESCRIPTION OF THE PROJECT

The Project is part of the first two years of the Taiwan Railway Administration's Investment Plan 1969-1972 for modernization, expansion and increase in the capacity of, and more effective utilization of, the railway facilities administered by TRA.

The Project includes :

1. the acquisition and placing in service of diesel locomotives, passenger and freight cars, bogies for passenger cars, trailers, automatic level crossing warning equipment, signalling equipment and equipment for workshops and freight handling;
2. double tracking between Changhua and Tainan (about 34 km);
3. track improvement and strengthening between Taipei and Hsin-Chu (about 40 km);
4. the provision of technical services to TRA for the introduction of a traffic cost accounting system and the carrying out of its electrification feasibility study; and
5. the establishment of a Planning Unit by TRA and the training abroad of personnel of the Unit.

The Project is expected to be completed by December 31, 1971.

SCHEDULE 4

PROCUREMENT

1. With respect to procurement contracts involving expenditures exceeding U.S. \$50,000 equivalent but less than U.S. \$200,000, the Borrower shall cause TRA to submit to the Bank an analysis of the bids received together with the proposal for award for the Bank's review and approval prior to making any award of such contracts.

2. With respect to procurement contracts involving expenditures exceeding the equivalent of U.S. \$200,000, the Borrower shall cause TRA to comply with the following procedures :

- (a) Invitations to bid, specifications, conditions of contract and all other tender documents will be submitted to the Bank for review and approval prior to the issuance of invitations to bid.

- (b) After bids have been received and analyzed, the analysis of the bids and the proposals for awards, together with the reasons for such proposals, will be submitted to the Bank for review and approval prior to making any award of such contracts.
- (c) If the final contract is to differ substantially from the terms and conditions contained in the respective documents approved by the Bank under paragraphs (a) and (b) above, the text of the proposed changes will be submitted to the Bank for review and approval prior to the execution of such contract.

3. With respect to all contracts, if bids incorporate a price escalation clause, a statement of an upper limit of the escalation percentage must be required from bidders and bids which do not meet this requirement must be rejected. Such upper limit will be fully added to the price for purposes of comparison of bids.

4. Subject to the provisions of paragraph 3 hereof, foreign bids will be compared on a C.I.F. port of entry, Taiwan landed price basis exclusive of customs duties and similar taxes incident to importation of the goods.

5. Where bids are submitted by suppliers registered as a Chinese corporation (Chinese suppliers) of goods substantially manufactured or processed in the territories of the Borrower, subject to the provisions of paragraph 3 hereof, the following rules shall be observed for the purpose of comparing any such bid to any competing bid of a foreign bidder :

- (a) All customs duties and similar taxes incident to importation shall first be deducted from the total of such foreign bid.
- (b) The portion of such foreign bid representing the C.I.F. port of entry, Taiwan landed price of the goods shall then be increased by 15 % thereof or the existing level of such duties and taxes, whichever is lower and the resulting figure shall be deemed to be the delivered price of the imported goods.
- (c) If the ex-factory price of the goods offered by the competing Chinese supplier is equal to or lower than the delivered price of the imported goods arrived at under paragraph (b) hereof, and other terms and conditions are satisfactory, the contract shall be awarded to the Chinese supplier.

6. As soon as a contract has been executed, the Borrower shall cause TRA to send a copy thereof to the Bank.

7. The eighteen diesel locomotives referred to in Category 1 of the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement have already been procured on the basis of international competitive bidding in accordance with the relevant procedures set forth in the foregoing paragraphs. The procurement of such diesel locomotives is therefore deemed to be in compliance with the provisions of this Loan Agreement.

GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE
AGREEMENTS, DATED JANUARY 31, 1969

Article I

APPLICATION TO LOAN AND GUARANTEE AGREEMENTS

SECTION 1.01. *Application of General Conditions.* These General Conditions set forth certain terms and conditions generally applicable to loans made by the Bank and shall apply to any loan agreement providing for any such loan and to any guarantee agreement with a member of the Bank providing for the guarantee of any such loan to such extent and subject to such modifications as shall be provided in such agreements; provided, however, that in the case of a loan agreement between the Bank and a member of the Bank references in these General Conditions to the "Guarantor" and the "Guarantee Agreement" shall be disregarded.

SECTION 1.02. *Inconsistency with Loan and Guarantee Agreements.* If any provision of a loan agreement or guarantee agreement is inconsistent with a provision of these General Conditions, the provision of the loan agreement or guarantee agreement, as the case may be, shall govern.

Article II

DEFINITIONS; HEADINGS

SECTION 2.01. *Definitions.* The following terms have the following meanings wherever used in these General Conditions or any Schedule hereto :

1. The term Bank means International Bank for Reconstruction and Development.
2. The term Association means International Development Association.
3. The term Loan Agreement means the particular loan agreement to which these General Conditions shall have been made applicable, as such agreement may be amended from time to time; and such term includes these General Conditions as thus made applicable, all agreements supplemental to the Loan Agreement and all schedules to the Loan Agreement.
4. The term Loan means the loan provided for in the Loan Agreement.
5. The term Guarantee Agreement means the agreement between a member of the Bank and the Bank providing for the guarantee of the Loan, as such agreement may be amended from time to time; and such term includes these General Conditions as thus made applicable, all agreements supplemental to the Guarantee Agreement and all schedules to the Guarantee Agreement.
6. The term Borrower means the party to the Loan Agreement to which the Loan is made.

7. The term Guarantor means the member of the Bank which is a party to the Guarantee Agreement.
8. The term currency of a country means such coin or currency as at the time referred to is legal tender for the payment of public and private debts in that country.
9. The term dollars and the sign \$ mean dollars in currency of the United States of America.
10. The term Bonds means bonds executed and delivered by the Borrower pursuant to the Loan Agreement; and such term includes any such bonds issued in exchange for, or on transfer of, Bonds as herein defined.
11. The term Loan Account means the account on the books of the Bank to which the amount of the Loan is to be credited as provided in Section 3.01.
12. The term Project means the project or projects or program or programs for which the Loan is granted, as described in the Loan Agreement and as the description thereof shall be amended from time to time by agreement between the Bank and the Borrower.
13. The term external debt means any debt payable in any medium other than currency of the member, of the Bank which is the Borrower or the Guarantor, whether such debt is or may become payable absolutely or at the option of the creditor in such other medium.
14. The term Effective Date means the date on which the Loan Agreement and the Guarantee Agreement shall come into force and effect as provided in Section 11.03.
15. The term lien includes mortgages, pledges, charges, privileges and priorities of any kind.
16. The term assets includes revenues and property of any kind.
17. The term tax and taxes include imposts, levies, fees and duties of any nature, whether in effect at the date of the Loan Agreement or Guarantee Agreement or thereafter imposed.
18. Wherever reference is made to the incurring of debt such reference includes the assumption and guarantee of debt and any renewal, extension, or modification of the terms of the debt or of the assumption or guarantee thereof.
19. The term Closing Date means the date specified in the Loan Agreement as of which the Bank may by notice to the Borrower terminate the right of the Borrower to withdraw from the Loan Account any amount theretofore unwithdrawn.

SECTION 2.02. *References.* References in these General Conditions to Articles or Sections are to Articles or Sections of these General Conditions.

SECTION 2.03. *Headings.* The headings of the Articles and Sections and the Table of Contents¹ are inserted for convenience of reference only and are not a part of these General Conditions.

¹ Not published.

*Article III*LOAN ACCOUNT; INTEREST AND OTHER CHARGES;
REPAYMENT; PLACE OF PAYMENT

SECTION 3.01. *Loan Account.* The amount of the Loan shall be credited to a Loan Account which the Bank shall open on its books in the name of the Borrower. The amount of the Loan may be withdrawn from the Loan Account as provided in the Loan Agreement and in these General Conditions.

SECTION 3.02. *Commitment Charges.* A commitment charge at the rate specified in the Loan Agreement shall be payable on the unwithdrawn amount of the Loan. Such commitment charge shall accrue from a date 60 days after the date of the Loan Agreement to the respective dates on which amounts shall be withdrawn by the Borrower from the Loan Account or shall be cancelled. An additional commitment charge at the rate of one half of one per cent ($\frac{1}{2}$ of 1 %) per annum shall be payable on the principal amount of any special commitment entered into by the Bank pursuant to Section 5.02 and outstanding from time to time.

SECTION 3.03. *Interest.* Interest at the rate specified in the Loan Agreement shall be payable on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time. Interest shall accrue from the respective dates on which amounts shall be so withdrawn.

SECTION 3.04. *Computation of Interest and Other Charges.* Interest and all other charges shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 3.05. *Repayment.* (a) The principal amount of the Loan withdrawn from the Loan Account shall be repayable in accordance with the amortization schedule to the Loan Agreement.

(b) The Borrower shall have the right, upon payment of all accrued interest and payment of the premium specified in said amortization schedule, and upon not less than 45 days' notice to the Bank, to repay in advance of maturity (i) all of the principal amount of the Loan at the time outstanding or (ii) all of the principal amount of any one or more maturities, provided that on the date of such prepayment there shall not be outstanding any portion of the Loan maturing after the portion to be prepaid. However, if Bonds shall have been delivered pursuant to Article VIII in respect of any portion of the Loan to be prepaid, the terms and conditions of prepayment of that portion of the Loan shall be those set forth in Section 8.15 and in such Bonds.

(c) It is the policy of the Bank to encourage the repayment prior to maturity of portions of its loans retained by the Bank for its own account. Accordingly, the Bank will sympathetically consider, in the light of all circumstances then existing, any request of the Borrower that the Bank waive the payment of any premium payable under paragraph (b) of this Section or under Section 8.15 on prepayment of any portions of the Loan or Bonds which the Bank has not sold or agreed to sell.

SECTION 3.06. *Place of Payment.* The principal (including premium, if any) of, and interest and other charges on, the Loan shall be paid at such places as the Bank shall reasonably request. The principal of the Bonds, the interest accruing thereon and the premium, if any, on the redemption thereof shall be paid at the places specified in the Bonds, except that payments under any Bonds held by the Bank shall be made at such places as the Bank shall reasonably request.

Article IV

CURRENCY PROVISIONS

SECTION 4.01. *Currencies in which Withdrawals are to be Made.* Except as the Borrower and the Bank shall otherwise agree, the cost of goods and services financed out of the proceeds of the Loan shall be paid in the respective currencies of the countries from which such goods and services are acquired. Withdrawals from the Loan Account shall be made either in the respective currencies in which the cost of goods and services has been paid or is payable or in dollars, as the Bank may from time to time elect; except that where withdrawals may be made in respect of expenditures in the currency of the member of the Bank which is the Borrower or the Guarantor, such withdrawals shall be made in such currency or currencies as the Bank shall from time to time reasonably select.

SECTION 4.02. *Currency in which Principal and Premium are Payable; Maturities.* (a) The principal of the Loan shall be repayable in the several currencies withdrawn from the Loan Account and the amount repayable in each currency shall be the amount withdrawn in that currency, provided that, if withdrawal shall be made in any currency which the Bank shall have purchased with another currency for the purpose of such withdrawal, the portion of the Loan so withdrawn shall be repayable in such other currency and the amount so repayable shall be the amount paid by the Bank on such purchase.

(b) Any premium payable under Section 3.05 on prepayment of any portion of the Loan, or under Section 8.15 on redemption of any Bond, shall be payable in the currency in which the principal of such portion of the Loan, or of such Bond, is repayable.

(c) The portion of the Loan to be repaid in any particular currency shall be repayable in such instalments as the Bank shall from time to time specify, provided that the amount of the Loan to be repaid on each maturity date shall remain as set forth in the amortization schedule to the Loan Agreement.

(d) For the purposes of facilitating the sale of portions of any loan (including the Loan) made by the Bank to the Borrower or of bonds representing any such loan, the Bank, with the approval of the Guarantor may from time to time, in connection with any such sale and notwithstanding the provisions of paragraph (a) of this Section, or of similar provisions in or applicable to any other loan agreement between the Borrower and the Bank:

- (i) agree with the Borrower that any such portion of any loan (including the Loan) made by the Bank to the Borrower, repayable in one currency may be made repayable in one or more other currencies, and from the date specified in such

agreement such portion of the Loan or of such other loan shall be repayable in such other currency or currencies; and

- (ii) by notice to the Borrower interchange equivalent portions of any loan (including the Loan) outstanding between the Borrower and the Bank and any other such loan or loans repayable in different currencies under the provisions of paragraph (a) of this Section or of similar provisions in or applicable to the loan agreements under which the loans in question were made, provided that after such interchange the aggregate amount to be repaid in any currency in respect of the loans in question, and the amounts of the maturities set forth in the respective amortization schedules applicable to the repayment of such loans, shall not be varied.

SECTION 4.03. *Currency in which Interest is Payable.* Interest on any portion of the Loan shall be payable in the currency in which the principal of such portion of the Loan is repayable.

SECTION 4.04. *Currency in which Commitment Charge is Payable.* The commitment charge and the charge for any special commitment pursuant to Section 5.02 shall be payable in dollars.

SECTION 4.05. *Purchase of Currencies.* The Bank will, at the request of the Borrower and on such terms and conditions as the Bank shall determine, purchase any currency needed by the Borrower for payment of principal, interest and other charges required under the Loan Agreement upon payment by the Borrower of sufficient funds therefor in a currency or currencies to be specified by the Bank from time to time. In purchasing the currencies required the Bank shall be acting as agent of the Borrower and the Borrower shall be deemed to have made any payment required under the Loan Agreement only when and to the extent that the Bank has received such payment in the currency or currencies required.

SECTION 4.06. *Valuation of Currencies.* Whenever it shall be necessary for the purposes of the Loan Agreement to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

SECTION 4.07. *Exchange Restrictions.* Any payment required under the Loan Agreement and the Guarantee Agreement to be made to the Bank in the currency of any country shall be made in such manner, and in currency acquired in such manner, as shall be permitted under the laws of such country for the purpose of making such payment and effecting the deposit of such currency to the account of the Bank with a depository of the Bank in such country.

Article V

WITHDRAWAL OF PROCEEDS OF LOANS

SECTION 5.01. *Withdrawal from the Loan Account.* The Borrower shall be entitled to withdraw from the Loan Account amounts expended or, if the Bank shall so agree, amounts to be expended for the Project in accordance with the pro-

visions of the Loan Agreement and of these General Conditions. Except as shall be otherwise agreed between the Bank and the Borrower, no withdrawals shall be made on account of (a) expenditures prior to the date of the Loan Agreement or (b) expenditures in the currency of the member of the Bank which is the Borrower or the Guarantor, or for goods produced in, or services supplied from, the territories of such member, or (c) expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

SECTION 5.02. *Special Commitments by the Bank.* Upon the Borrower's request and upon such terms and conditions as shall be agreed upon between the Bank and the Borrower, the Bank may enter into special commitments in writing to pay amounts to the Borrower or others in respect of the cost of goods and services to be financed under the Loan Agreement notwithstanding any subsequent suspension or cancellation.

SECTION 5.03. *Applications for Withdrawal or for Special Commitment.* When the Borrower shall desire to withdraw any amount from the Loan Account or to request the Bank to enter into a special commitment pursuant to Section 5.02, the Borrower shall deliver to the Bank a written application in such form, and containing such statements and agreements, as the Bank shall reasonably request. Applications for withdrawal, with the necessary documentation as hereinafter in this Article provided, shall be made promptly in relation to expenditures for the Project.

SECTION 5.04. *Evidence of Authority to Sign Applications for Withdrawal.* The Borrower shall furnish to the Bank evidence of the authority of the person or persons authorized to sign applications for withdrawal and the authenticated specimen signature of any such person.

SECTION 5.05. *Supporting Evidence.* The Borrower shall furnish to the Bank such documents and other evidence in support of the application as the Bank shall reasonably request, whether before or after the Bank shall have permitted any withdrawal requested in the application.

SECTION 5.06. *Sufficiency of Applications and Documents.* Each application and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Bank that the Borrower is entitled to withdraw from the Loan Account the amount applied for and that the amount to be withdrawn from the Loan Account is to be used only for the purposes specified in the Loan Agreement.

SECTION 5.07. *Payment by the Bank.* Payment by the Bank of amounts which the Borrower is entitled to withdraw from the Loan Account shall be made to or on the order of the Borrower.

Article VI

CANCELLATION AND SUSPENSION

SECTION 6.01. *Cancellation by the Borrower.* The Borrower may by notice to the Bank cancel any amount of the Loan which the Borrower shall not have withdrawn prior to the giving of such notice, except that the Borrower may not so cancel any amount of the Loan in respect of which the Bank shall have entered into a special commitment pursuant to Section 5.02.

SECTION 6.02. *Suspension by the Bank.* If any of the following events shall have occurred and be continuing, the Bank may by notice to the Borrower and the Guarantor suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account :

- (a) The Borrower or the Guarantor shall have failed to make payment (notwithstanding the fact that such payment may have been made by a third party) of principal, interest, service charges or any other payment required under : (i) the Loan Agreement, the Guarantee Agreement or the Bonds, or (ii) any other loan or guarantee agreement with the Bank or any bond or similar instrument delivered pursuant to any such agreement, or (iii) any development credit agreement with the Association.
- (b) The Borrower or the Guarantor shall have failed to perform any other obligation under the Loan Agreement, the Guarantee Agreement or the Bonds.
- (c) The Bank or the Association shall have suspended in whole or in part the right of the Borrower or the Guarantor to make withdrawals under any loan agreement with the Bank or any development credit agreement with the Association because of a failure by the Borrower or the Guarantor to perform any of its obligations under such agreement.
- (d) An extraordinary situation shall have arisen which shall make it improbable that the Project can be carried out or that the Borrower or the Guarantor will be able to perform its obligations under the Loan Agreement or the Guarantee Agreement or the Bonds.
- (e) The member of the Bank which is the Borrower or the Guarantor : (i) shall have been suspended from membership in or ceased to be a member of the Bank, or (ii) shall have ceased to be a member of the International Monetary Fund or shall have become, or shall have been declared ineligible to use the resources of said Fund.
- (f) After the date of the Loan Agreement and prior to the Effective Date any event shall have occurred which would have entitled the Bank to suspend the Borrower's right to make withdrawals from the Loan Account if the Loan Agreement and the Guarantee Agreement had been effective on the date such event occurred.
- (g) Prior to the Effective Date, any material adverse change in the condition of the Borrower, as represented by the Borrower, shall have occurred.

- (h) A representation made by the Borrower or the Guarantor, in or pursuant to the Loan Agreement or the Guarantee Agreement or any statement furnished in connection therewith and intended to be relied upon by the Bank in making the Loan, shall have been incorrect in any material respect.
- (i) Any event specified in paragraphs (e) or (f) of Section 7.01 or in the Loan Agreement for the purposes of Section 7.01 shall have occurred.
- (j) Any other event specified in the Loan Agreement for the purposes of this Section shall have occurred.

The right of the Borrower to make withdrawals from the Loan Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to such suspension shall have ceased to exist or until the Bank shall have notified the Borrower that the right to make withdrawals has been restored, whichever is the earlier; provided, however, that in the case of any such notice of restoration, the right to make withdrawals shall be restored only to the extent and subject to the conditions specified in such notice, and no such notice shall affect or impair any right, power or remedy of the Bank in respect of any other or subsequent event described in this Section.

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) after the Closing Date an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may by notice to the Borrower 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 6.04. *Amounts Subject to Special Commitment Not Affected by Cancellation or Suspension by the Bank.* No cancellation or suspension by the Bank shall apply to amounts subject to any special commitment entered into by the Bank pursuant to Section 5.02 except as expressly provided in such commitment.

SECTION 6.05. *Application of Cancellation to Maturities of the Loan.* Except as otherwise agreed between the Bank and the Borrower, any cancellation shall be applied *pro rata* to the several maturities of the principal amount of the Loan which shall mature after the date of such cancellation and shall not have been theretofore sold or agreed to be sold by the Bank or in respect of which Bonds shall not have been requested or delivered pursuant to Article VIII.

SECTION 6.06. *Effectiveness of Provisions after Suspension or Cancellation.* Notwithstanding any cancellation or suspension, all the provisions of these General Conditions, the Loan Agreement and the Guarantee Agreement shall continue in full force and effect except as in this Article specifically provided.

Article VII

ACCELERATION OF MATURITY

SECTION 7.01. *Events of Default.* If any of the following events shall occur and shall continue for the period specified, if any, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower and the Guarantor declare the principal of the Loan of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon and upon any such declaration such principal, together with the interest and other charges thereon, shall become due and payable immediately :

- (a) A default shall occur in the payment of principal or interest or any other payment required under the Loan Agreement or the Bonds and such default shall continue for a period of thirty days.
- (b) A default shall occur in the payment of principal or interest or any other payment required under any other loan or guarantee agreement between the Bank and the Borrower or under any bond or similar instrument delivered pursuant to any such agreement or under any development credit agreement between the Association and the Borrower and such default shall continue for a period of thirty days.
- (c) A default shall occur in the payment of principal or interest or any other payment required under any loan or guarantee agreement between the Guarantor and the Bank or under any bond or similar instrument delivered pursuant to any such agreement or under any development credit agreement between the Association and the Guarantor under circumstances which would make it unlikely that the Guarantor would meet its obligations under the Guarantee Agreement or the Bonds and such default shall continue for a period of thirty days.
- (d) A default shall occur in the performance of any other obligation on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement or the Bonds, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.
- (e) The Borrower (not being a member of the Bank) shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by the Borrower or by others whereby any of the property of the Borrower shall or may be distributed among its creditors.
- (f) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or for the suspension of its operations.
- (g) Any other event specified in the Loan Agreement for the purposes of this Section shall have occurred and shall continue for the period, if any, specified in the Loan Agreement.

Article VIII

BONDS

SECTION 8.01. *Delivery of Bonds.* The Borrower shall, as soon as practicable and within such period not less than 60 days after the date of any request therefor as the Bank shall specify in such request, execute and deliver to or on the order of the Bank Bonds, having the guarantee of the Guarantor endorsed thereon, in the aggregate principal amount specified in such request, not exceeding, however, the aggregate principal amount of the Loan which shall have been withdrawn and shall be outstanding at the time of such request and for which Bonds shall not theretofore have been so delivered or requested.

SECTION 8.02. *Payments on Bonds.* The payment of the principal of any Bonds shall *pro tanto* discharge the obligation of the Borrower to repay the principal of the Loan; and the payment of interest on any Bonds and of the service charge, if any, provided for in Section 8.03, shall *pro tanto* discharge the obligation of the Borrower to pay interest on the Loan.

SECTION 8.03. *Interest on Bonds; Service Charge.* The Bonds shall bear interest at such rate or rates as the Bank shall request, not in excess, however, of the rate of interest on the Loan. If the rate of interest on any Bond shall be less than the rate of interest on the Loan, the Borrower shall, in addition to the interest payable on such Bond, pay to the Bank a service charge on the principal amount of the Loan represented by such Bond at a rate equal to the difference between the interest rate on the Loan and the interest rate on such Bond. Such service charge shall be payable on the dates on which and in the currency in which such interest is payable.

SECTION 8.04. *Currency in Which Bonds Are Payable.* The Bonds shall be payable as to principal and interest in the several currencies in which the Loan is repayable. Each Bond delivered pursuant to any request under Section 8.01 or under Section 8.11 shall be payable in such currency as the Bank shall specify in such request except that the aggregate principal amount of Bonds payable in any currency shall at no time exceed the outstanding amount of the Loan repayable in such currency.

SECTION 8.05. *Maturities of Bonds.* (a) The maturities of the Bonds shall correspond to the maturities of instalments of the principal amount of the Loan set forth in the amortization schedule to the Loan Agreement. The Bonds delivered pursuant to any request under Section 8.01 or under Section 8.11 shall have such maturities as the Bank shall specify in such request except that the aggregate principal amount of Bonds of any maturity shall at no time exceed the corresponding instalment of the principal amount of the Loan.

(b) The Bank may, with the approval of the Guarantor, from time to time agree with the Borrower that some or all of the Bonds denominated in any currency shall have a single maturity date not later than the final maturity of the Loan set forth

in the amortization schedule to the Loan Agreement and be subject to repurchase or redemption on such terms, not inconsistent with the obligation of the Borrower to make payments in such currency on the part of the Loan represented by such Bonds, as shall be agreed by the Bank and the Borrower.

SECTION 8.06. *Form of Bonds and of Guarantee.* The Bonds shall be fully registered bonds without coupons (hereinafter sometimes called registered Bonds) or bearer bonds with coupons for semi-annual interest attached (hereinafter sometimes called coupon Bonds). Bonds delivered to the Bank shall be registered Bonds or coupon Bonds as the Bank shall request. Registered Bonds payable in dollars shall be substantially in the form set forth in Schedule 1 to these General Conditions. Coupon Bonds payable in dollars shall be substantially in the same form with appropriate modifications to provide for payment to bearer, interest coupons and exchange for registered Bonds. The form of guarantee to be endorsed by the Guarantor upon the Bonds shall be substantially as set forth in Schedule 2 to these General Conditions. Bonds payable in any currency other than dollars and the guarantee endorsed thereon shall be substantially in the forms set forth in Schedules 1 and 2 to these General Conditions, except that they shall (a) provide for payment of principal, interest and premium on redemption, if any, in such other currency, (b) provide for such place of payment as the Bank shall specify, and (c) contain such other modifications as the Bank shall reasonably request in order to conform to the laws or to the financial usage of the place where they are payable.

SECTION 8.07. *Printing or Engraving of Bonds.* Except as the Bank and the Borrower shall otherwise agree and subject to the provisions of Section 8.11 (b), the Bonds shall be either (a) printed or lithographed on an engraved base having an engraved border or (b) fully engraved in conformity with the requirements of the leading securities exchange in the country in whose currency such Bonds are payable.

SECTION 8.08. *Date of Bonds.* Each registered Bond shall be dated the semi-annual interest payment date on which or next preceding the date on which it shall be executed and delivered. Each coupon Bond shall be dated six months prior to the first semi-annual interest payment date after the Effective Date except as the Bank and the Borrower shall otherwise agree, and shall be delivered with all unmat-ured coupons attached. Upon any delivery of Bonds appropriate adjustment shall be made so that there shall be no loss to the Bank or to the Borrower in respect of commitment charge or interest and service charge, if any, on the principal amount of the Loan represented by such Bonds.

SECTION 8.09. *Denominations of Bonds.* The Borrower shall authorize the issuance of Bonds in such denominations as the Bank shall reasonably request. The Bonds delivered pursuant to any request under Section 8.01 or under Section 8.11 shall be in such authorized denominations as the Bank shall specify in such request.

SECTION 8.10. *Execution of Bonds and Guarantee.* (a) The Bonds and the guarantee endorsed thereon shall be signed in the name and on behalf of the Borrower and the Guarantor, respectively, by their authorized representative or representatives designated in the Loan Agreement and in the Guarantee Agreement for the purposes of this Section. The signature of any such representative may be a facsimile signature if the Bonds, or the guarantee, as the case may be, are also manually countersigned by an authorized representative of the Borrower or of the Guarantor. Coupons attached to coupon Bonds shall be authenticated by the facsimile signature of an authorized representative of the Borrower.

(b) If any authorized representative of the Borrower or of the Guarantor, as the case may be, whose manual or facsimile signature shall be affixed to any Bond, coupon, or guarantee shall cease to be such authorized representative, such Bond, with such guarantee endorsed thereon, or coupon may nevertheless be delivered, and shall be valid and binding on the Borrower and the Guarantor as though the person whose manual or facsimile signature shall have been affixed to such Bond, coupon, or guarantee had not ceased to be such authorized representative.

SECTION 8.11. *Exchange of Bonds.* The Borrower shall, as soon as practicable after the Bank shall so request, execute and deliver to or on the order of the Bank, in exchange for Bonds theretofore executed and delivered to it, new Bonds in accordance with the following provisions :

- (a) Bonds bearing interest at one rate may be exchanged for Bonds bearing interest at any other rate not in excess of the rate of interest on the Loan.
- (b) Bonds initially issued which are not fully engraved in accordance with the provisions of Section 8.07 (b) may be exchanged for such fully engraved Bonds.
- (c) Bonds payable in one currency may, subject to the provisions of Sections 8.04 and 8.05, be exchanged for a like aggregate principal amount of Bonds payable in the same or any other currency in which the Loan is repayable.
- (d) The Bank shall reimburse the Borrower for the reasonable cost of any exchange made pursuant to paragraphs (a) or (c) above. Any exchange made pursuant to paragraph (b) above of any exchange by the Bank of registered Bonds in large denominations for registered or coupon Bonds in smaller authorized denominations for purposes of sale by the Bank shall be without charge to the Bank.

The foregoing rights of exchange are in addition to any rights of exchange provided in the Bonds. Except as in this Section expressly provided, exchanges of Bonds pursuant to this Section shall be subject to all provisions of the Bonds relating to exchanges.

SECTION 8.12. *Registration and Transfer of Registered Bonds.* The Borrower shall maintain, or cause to be maintained, books for the registration and transfer of registered Bonds.

SECTION 8.13. *Qualification and Listing of Bonds.* The Borrower and the Guarantor shall promptly furnish to the Bank such information and execute such applications and other documents as the Bank shall reasonably request in order to enable the Bank to sell any of the Bonds in any country, or to list any of the Bonds on any securities exchange, in compliance with applicable laws and regulations. To the extent necessary to comply with the requirements of any such exchange, the Borrower and the Guarantor shall, if the Bank shall so request, appoint and maintain an agency for authentication of such Bonds.

SECTION 8.14. *Guarantee by the Bank of Payments on Bonds.* If the Bank shall sell any Bond and shall guarantee any payment thereunder, the Borrower or the Guarantor shall reimburse the Bank for any amount paid by the Bank under such guarantee by reason of any failure of the Borrower and the Guarantor to make payment in accordance with the terms of such Bond.

SECTION 8.15. *Redemption of Bonds.* (a) The Bonds shall be subject to redemption prior to their maturity by the Borrower in accordance with their terms, at a redemption price equal to the principal amount thereof plus the interest accrued and unpaid thereon to the date fixed for the redemption thereof plus as a premium the percentages of said principal amount set forth in the amortization schedule to the Loan Agreement which shall be specified in the Bonds.

(b) If any Bond so to be redeemed shall bear interest at a rate less than the rate of interest on the Loan, the Borrower shall pay to the Bank on the date fixed for redemption the service charge provided for in Section 8.03 accrued and unpaid to such date on the principal amount of the Loan represented by such Bond.

SECTION 8.16. *Rights of Holders of Bonds.* No holder (other than the Bank) of any Bond shall, by virtue of being the holder thereof, be entitled to exercise any rights under the Loan Agreement or the Guarantee Agreement or be subject to any of the conditions or obligations imposed upon the Bank thereby. The provisions of this Section shall not impair or affect any rights or obligations under the terms of any Bond or of any guarantee endorsed hereon.

SECTION 8.17. *Delivery of Promissory Notes in Lieu of Bonds.* At the request of the Bank the Borrower shall execute and deliver to the Bank promissory notes in lieu of Bonds. Each note shall be payable to the order of such payee or payees, and at such place within the country in which the note is payable, as the Bank shall specify, and shall be dated the interest payment date next preceding the date of its delivery. Such note shall be in such customary form as the Bank and the Borrower shall mutually agree upon in order to conform to the laws or financial usage of the place where it is payable. Except as otherwise expressly provided in this Section or where the context otherwise requires, references in these General Conditions and the Loan Agreement and Guarantee Agreement to Bonds shall include any promissory notes executed and delivered under this Section.

SECTION 8.18. *Legal Opinions.* Upon the execution and delivery of any Bonds pursuant to this Article, the Borrower shall promptly at the Bank's request furnish to the Bank an opinion or opinions of counsel acceptable to the Bank confirming as of the date of delivery of such Bonds that such Bonds constitute valid and binding obligations of the Borrower in accordance with their terms and that the guarantee endorsed thereon constitutes a valid and binding obligation of the Guarantor in accordance with its terms.

Article IX

ENFORCEABILITY OF LOAN AGREEMENT AND GUARANTEE AGREEMENT; FAILURE TO EXERCISE RIGHTS; ARBITRATION

SECTION 9.01. *Enforceability.* The rights and obligations of the Bank, the Borrower and the Guarantor under the Loan Agreement, the Guarantee Agreement and the Bonds shall be valid and enforceable in accordance with their terms notwithstanding the law of any state, or political subdivision thereof, to the contrary. Neither the Bank nor the Borrower nor the Guarantor shall be entitled in any proceeding under this Article to assert any claim that any provision of these General Conditions or of the Loan Agreement, the Guarantee Agreement or the Bonds is invalid or unenforceable because of any provision of the Articles of Agreement of the Bank or for any other reason.

SECTION 9.02. *Obligations of the Guarantor.* The obligations of the Guarantor under the Guarantee Agreement shall not be discharged except by performance and then only to the extent of such performance. Such obligations shall not be subject to any prior notice to, demand upon or action against the Borrower or to any prior notice to or demand upon the Guarantor with regard to any default by the Borrower, and shall not be impaired by any of the following : any extension of time, forbearance or concession given to the Borrower; any assertion of, or failure to assert, or delay in asserting, any right, power or remedy against the Borrower or in respect of any security for the Loan; any modification or amplification of the provisions of the Loan Agreement contemplated by the terms thereof; any failure of the Borrower to comply with any requirement of any law, regulation or order of the Guarantor or of any political subdivision or agency of the Guarantor.

SECTION 9.03. *Failure to Exercise Rights.* No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under the Loan Agreement or Guarantee Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

SECTION 9.04. *Arbitration.* (a) Any controversy between the parties to the Loan Agreement or the parties to the Guarantee Agreement, and any claim by any such party against any other such party arising under the Loan Agreement, the Guarantee Agreement or the Bonds which shall not be determined by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Bank on the one side and the Borrower and the Guarantor, on the other side.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows : one arbitrator shall be appointed by the Bank; a second arbitrator shall be appointed by the Borrower and the Guarantor or, if they shall not agree, by the Guarantor; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by him, by the Secretary-General of the United Nations. If either side shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration and the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within 30 days after the giving of such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(e) If within 60 days after the giving of such notice instituting the arbitration proceeding the parties shall not have agreed upon an Umpire, any party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) Subject to the provisions of this Section and except as the parties shall otherwise agree, the Arbitral Tribunal shall decide all questions relating to its competence and shall determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to all parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Loan Agreement and the Guarantee Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. The Bank, the Borrower and the Guarantor shall each defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the Bank on the one side and the Borrower and the Guarantor on the other. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the determination of controversies between the parties to the Loan Agreement and Guarantee Agreement or any claim by any such party against any other such party arising thereunder or under the Bonds.

(k) If within 30 days after counterparts of the award shall be delivered to the parties the award shall not be complied with, any party may enter judgment upon, or institute a proceeding to enforce, the award in any court of competent jurisdiction against any other party, may enforce such judgment by execution or may pursue any other appropriate remedy against such other party for the enforcement of the award, the provisions of the Loan Agreement, the Guarantee Agreement or the Bonds. Notwithstanding the foregoing, this Section shall not authorize any entry of judgment or enforcement of the award against any party that is a member of the Bank except as such procedure may be available otherwise than by reason of the provisions of this Section.

(l) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 10.01. The parties to the Loan Agreement and the Guarantee Agreement waive any and all other requirements for the service of any such notice or process.

Article X

MISCELLANEOUS PROVISIONS

SECTION 10.01. *Notices and Requests.* Any notice or request required or permitted to be given or made under the Loan Agreement or Guarantee Agreement and any agreement between any of the parties contemplated by the Loan Agreement or the guarantee Agreement shall be in writing. Except as otherwise provided in Section 11.03, such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address specified in the Loan Agreement or Guarantee Agreement or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

SECTION 10.02. *Evidence of Authority.* The Borrower and the Guarantor shall furnish to the Bank sufficient evidence of the authority of the person or persons who will sign the Bonds or who will, on behalf of the Borrower or the Guarantor, take any action or execute any documents required or permitted to be taken or executed by the Borrower under the Loan Agreement or by the Guarantor under the Guarantee Agreement, and the authenticated specimen signature of each such person.

SECTION 10.03. *Action on Behalf of the Borrower or Guarantor.* Any action required or permitted to be taken, and any documents required or permitted to be executed, under the Loan Agreement, if the Borrower is a member of the Bank, or the Guarantee Agreement, on behalf of the Borrower or the Guarantor may be taken or executed by the representative of the Borrower or the Guarantor designated in the Loan Agreement or the Guarantee Agreement for the purposes of this Section or any person thereunto authorized in writing by him. Any modification or amplification of the provisions of the Loan Agreement, if the Borrower is a member of the Bank, or the Guarantee Agreement, may be agreed to on behalf of the Borrower or the Guarantor by written instrument executed on behalf of the Borrower or the Guarantor by the representative so designated or any person thereunto authorized in writing by him; provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Borrower under the Loan Agreement or of the Guarantor under the Guarantee Agreement. The Bank may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of the Loan Agreement or the Guarantee Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Borrower or of the Guarantor thereunder.

SECTION 10.04. *Execution in Counterparts.* The Loan Agreement and the Guarantee Agreement may each be executed in several counterparts, each of which shall be an original.

Article XI

EFFECTIVE DATE; TERMINATION

SECTION 11.01. *Conditions Precedent to Effectiveness of Loan Agreement and Guarantee Agreement.* The Loan Agreement and the Guarantee Agreement shall not become effective until evidence satisfactory to the Bank shall have been furnished to the Bank :

- (a) that the execution and delivery of the Loan Agreement and the Guarantee Agreement on behalf of the Borrower and the Guarantor have been duly authorized or ratified by all necessary corporate and governmental action;

- (b) if the Bank shall so request, that the condition of the Borrower (not being a member of the Bank), as represented or warranted to the Bank at the date of the Loan Agreement, has undergone no material adverse change between such date and the date agreed upon between the Borrower and the Bank for the purposes of this Section; and
- (c) that all other events specified in the Loan Agreement as conditions to effectiveness have occurred.

SECTION 11.02. *Legal Opinions.* As part of the evidence to be furnished pursuant to Section 11.01, there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing :

- (a) on behalf of the Borrower
 - (i) that the Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and constitutes a valid and binding obligation of the Borrower in accordance with its terms;
 - (ii) that the Bonds when executed and delivered in accordance with the Loan Agreement will constitute valid and binding obligations of the Borrower in accordance with their terms and that, except as stated in such opinion, no signatures or formalities other than those provided for in the Loan Agreement are required for that purpose;
- (b) on behalf of the Guarantor
 - (i) that the Guarantee Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Guarantor and constitutes a valid and binding obligation of the Guarantor in accordance with its terms;
 - (ii) that the guarantee on the Bonds when executed and delivered in accordance with the Guarantee Agreement will constitute a valid and binding obligation of the Guarantor in accordance with its terms and that, except as stated in such opinion, no signatures or formalities other than those provided for in the Guarantee Agreement are required for that purpose; and
- (c) such other matters as shall be specified in the Loan Agreement.

SECTION 11.03. *Effective Date.* Except as shall be otherwise agreed by the Bank and the Borrower, the Loan Agreement and Guarantee Agreement shall come into force and effect on the date upon which the Bank dispatches to the Borrower and to the Guarantor notice of its acceptance of the evidence required by Section 11.01.

SECTION 11.04. *Termination of Loan Agreement and Guarantee Agreement for Failure to Become Effective.* If the Loan Agreement shall not have come into force and effect by the date specified in the Loan Agreement for the purposes of this Section, the Loan Agreement and the Guarantee Agreement and all obligations of the parties thereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

SECTION 11.05. *Termination of Loan Agreement and Guarantee Agreement on Full Payment.* If and when the entire principal amount of the Loan withdrawn from the Loan Account and the Bonds and the premium, if any, on the prepayment of the Loan and on the redemption of all Bonds called for redemption (as the case may be) and all interest and other charges which shall have accrued on the Loan and the Bonds shall have been paid, the Loan Agreement and the Guarantee Agreement and all obligations of the parties thereunder shall forthwith terminate.

SCHEDULE 1

*FORM OF REGISTERED BOND WITHOUT COUPONS
PAYABLE IN DOLLARS*

\$ 000
No. 000

\$ 000
No. 000

[NAME OF BORROWER]

[Name of Bonds and Due Date]

[NAME OF BORROWER] (hereinafter called [the Borrower]), for value received, hereby promises to pay to....., or registered assigns, on the day of, 19.., at the office or agency of [the Borrower] in the Borough of Manhattan, in The City of New York, the sum of Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, and to pay interest thereon from the date hereof at said office or agency in like coin or currency at the rate of per centum (. . %) per annum, payable semi-annually on and until payment of said principal sum has been made or duly provided for.

This Bond is one of an authorized issue of bonds in various currencies equivalent to an aggregate principal amount of, known as [Name of Bonds] of [the Borrower] (hereinafter called the Bonds), issued or to be issued under a Loan Agreement dated between International Bank for Reconstruction and Development (hereinafter called the Bank) and [the Borrower] [and guaranteed by (name of Guarantor) in accordance with the terms of a Guarantee Agreement dated between (name of Guarantor) and the Bank]. No reference herein to said Agreement[s] shall confer upon the holder hereof any rights thereunder or impair the obligation of [the Borrower], which is absolute and unconditional, to pay the principal and interest on this Bond at the times and place and in the amounts and in the currency herein prescribed.

This Bond is transferable by the registered holder hereof, or by his attorney duly authorized in writing, at said office or agency of [the Borrower] in the Borough of Manhattan, upon payment, if [the Borrower] shall so require, of a charge calculated to reimburse [the Borrower] for the cost of the transfer and upon surrender of

this Bond for cancellation, duly endorsed or accompanied by a proper instrument or instruments of assignment and transfer. Upon any such transfer a new fully registered Bond or Bonds, without coupons, of authorized denominations, of the same maturity, payable in the same currency, and in the same aggregate principal amount, will be issued to the transferee in exchange for this Bond.

Upon payment, if [the Borrower] shall so require, of a charge calculated to reimburse [the Borrower] for the cost of the exchange (1) bearer Bonds with interest coupons attached (hereinafter called coupon Bonds) of any maturity, together with all unmatured coupons thereto appertaining, may be exchanged upon presentation and surrender thereof at said office or agency in the Borough of Manhattan for coupon Bonds of other authorized denominations with all unmatured coupons thereto appertaining, or for fully registered Bonds without coupons (hereinafter called registered Bonds) of any authorized denominations, or both, of the same maturity, payable in the same currency, and in the same aggregate principal amount; and (2) registered Bonds of any maturity may be exchanged upon presentation and surrender at said office or agency, duly endorsed or accompanied by a proper instrument or instruments of assignment and transfer, for registered Bonds of other authorized denominations or for coupon Bonds of any authorized denominations with all unmatured coupons thereto appertaining, or both, of the same maturity, payable in the same currency, and in the same aggregate principal amount.

[The Borrower] shall not be required to make transfers or exchanges of any Bonds for a period of ten days next preceding any interest payment date thereof or of any Bonds called for redemption.

The Bonds are subject to redemption at the election of [the Borrower], as hereinafter provided, at a redemption price for each Bond equal to the principal amount thereof, plus the interest accrued and unpaid thereon to the date fixed for the redemption thereof, plus as a premium the following respective percentages of such principal amount: [insert percentages set forth in the amortization schedule to the Loan Agreement]. All the Bonds at the time outstanding of any one or more maturities may be so redeemed at any time, provided that, at the date fixed for the redemption of such Bonds, there shall not be outstanding any Bonds or any portion of the Loan provided for in said Loan Agreement maturing after the Bonds to be redeemed. If [the Borrower] shall elect to redeem Bonds it shall give notice of intention to redeem all the Bonds, or all the Bonds of one or more designated maturities as hereinabove provided, as the case may be. Such notice shall designate the redemption date and shall state the redemption price or prices, determined as hereinbefore provided. Such notice shall be given by publication in two daily newspapers printed in the English language and published and of general circulation in said Borough of Manhattan at least once a week for three successive weeks, the first publication to be not less than 45 nor more than 60 days prior to said redemption date. Notice of election to redeem having been given as above provided, the Bonds so called for redemption shall become due and payable on said redemption date at their redemption price or prices, and upon presentation and surrender thereof on or after such date at said office or agency in said Borough of Manhattan, together with any appurtenant coupons maturing after said redemption date, shall be paid at the redemption price or prices aforesaid. All unpaid interest instalments represented by coupons

which shall have matured on or prior to said redemption date shall continue to be payable to the bearers of such coupons severally and respectively, and the redemption price payable to the holders of coupon Bonds presented for redemption shall not include such unpaid instalments of interest unless coupons representing such instalments shall accompany the Bonds presented for redemption. From and after said redemption date, if payment is made or duly provided for pursuant thereto, the Bonds so called for redemption shall cease to bear interest and any appurtenant coupons maturing after said redemption date shall be void.

In certain events provided in said Loan Agreement, the Bank at its option, may declare the principal of all the Bonds then outstanding (if not already due) to be due and payable immediately, and upon any such declaration such principal shall be due and payable immediately.

The principal of the Bonds, the interest accruing thereon and the premium, if any, on the redemption thereof shall be paid without deduction for and free from any taxes, imposts, levies, fees or duties of any nature now or at any time hereafter imposed under the laws of [name of the member of the Bank which is the Borrower or the Guarantor] or laws in effect in its territories; **provided, however, that the provisions of this paragraph shall not apply to the taxation of payments made under the provisions of any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of [name of the member of the Bank which is the Borrower or the Guarantor].*

[The Borrower] may deem and treat the bearer of any coupon Bond, and the bearer of any coupon for interest on any Bond, and the registered owner of any registered Bond, as the absolute owner thereof for all purposes whatsoever notwithstanding any notice to the contrary; and all payments to such bearer or to or on the order of such registered owner, as the case may be, shall be valid and effectual to discharge the liability of [the Borrower] upon such coupon Bond, such coupon or such registered Bond to the extent of the sum or sums so paid.

This Bond shall not be valid or become obligatory for any purpose until it shall have been [insert appropriate reference to authentication, signature or attestation].

IN WITNESS WHEREOF [the Borrower] has caused this Bond to be signed in its name by [here insert reference to official or officials signing Bonds, to countersignatures, attestation and seal, if used, and, if any signature is a facsimile signature, make reference thereto].

[Signature, attestation, authentication,
as may be appropriate]

Dated.....

* NOTE : Italicized provisions may be omitted if Borrower desires.

FORM OF ASSIGNMENT AND TRANSFER

FOR VALUE RECEIVED hereby sell, assign and transfer unto..... the within Bond issued by [NAME OF BORROWER] and hereby irrevocably authorize said [BORROWER] to transfer said Bond on its books.

Dated.....

Witness :

SCHEDULE 2

FORM OF GUARANTEE

[NAME OF GUARANTOR], for value received, as a primary obligor and not as surety merely, hereby absolutely and unconditionally guarantees, and pledges its full faith and credit for, the due and punctual payment of the principal and redemption price of the within Bond and the interest thereon, free from taxes as therein provided and free from all restrictions imposed under the laws of [name of Guarantor] or laws in effect in its territories, prior notice to, demand upon or action against the obligor on said Bond or [name of Guarantor] being waived.

[NAME OF GUARANTOR] hereby agrees that it will affix a similar guarantee on any Bond or Bonds which shall be duly issued in exchange or substitution for or in replacement of the within Bond.

[NAME OF GUARANTOR] by

Authorized Representative

Dated

PROJECT AGREEMENT

AGREEMENT, dated May 29, 1969, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank), the PROVINCE OF TAIWAN (hereinafter called the Province) and TAIWAN RAILWAY ADMINISTRATION (hereinafter called TRA).

WHEREAS by an agreement of even date herewith between the Republic of China (hereinafter called the Borrower) and the Bank, which agreement is hereinafter called the Loan Agreement,¹ the Bank has agreed to make available to the Borrower

¹ See p. 272 of this volume.

a loan in various currencies equivalent to thirty-one million two hundred thousand dollars (\$31,200,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Province and TRA agree to undertake certain obligations to the Bank as hereinafter in this Project Agreement set forth;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

DEFINITIONS

Section 1.01. Wherever used in this Project Agreement, unless the context shall otherwise require, the several terms defined in the Loan Agreement and in the General Conditions¹ (as so defined) shall have the respective meanings therein set forth.

Article II

PARTICULAR COVENANTS

Section 2.01. (a) TRA shall carry out the Project with due diligence and efficiency and in conformity with sound railway, engineering and financial practices.

(b) In the carrying out of the Project, TRA shall employ competent and experienced consultants acceptable to, and to an extent and upon terms and conditions satisfactory to, the Bank, the Province and TRA,

- (i) to review TRA's dieselization program and study the feasibility of the electrification of the main line of TRA's west system; and
- (ii) to introduce a traffic cost accounting system.

Section 2.02. The Province and TRA shall provide promptly as needed the funds, facilities, services and other resources which shall be required for the carrying out of the Project.

Section 2.03. (a) Upon request from time to time by the Bank, TRA shall furnish to the Bank, promptly upon their preparation, the plans and specifications for the Project and any material modifications subsequently made therein, in such detail as the Bank shall request.

(b) TRA shall maintain records adequate to identify the goods and services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, and to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices its operation and financial condition; shall enable the Bank's representatives to inspect the Pro-

¹ See p. 300 of this volume.

ject, the goods financed out of the proceeds of the Loan, the railway property and equipment owned, administered or operated by TRA and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the goods and services financed out of the proceeds of the Loan, and its administration, operations and financial condition.

Section 2.04. (a) The Bank, the Province and TRA shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank, the Province and TRA shall from time to time, at the request of any party, exchange views through their representatives with regard to the performance by the Province or TRA of their respective obligations under this Project Agreement, or by TRA under the Subsidiary Loan Agreement, the administration, operations and financial condition of TRA and other matters relating to the purposes of the Loan.

(b) The Province and TRA shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the performance by the Province or TRA of their respective obligations under this Project Agreement or by TRA under the Subsidiary Loan Agreement or which shall increase or threaten to increase materially the estimated cost of the Project.

Section 2.05. Except as the Bank, the Province and TRA shall otherwise agree, TRA shall insure with responsible insurers the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely usable by TRA to replace or repair such goods.

Section 2.06. (a) TRA shall at all times manage and operate the railway facilities owned or administered by it in accordance with sound railway, business, engineering and financial practices.

(b) Except as the Bank shall otherwise agree, TRA shall establish a Planning Unit by December 31, 1969, to assist in preparing TRA's investment programs, to examine transport competition and to study operating efficiency, traffic costing and tariff policy.

Section 2.07. (a) Except as the Bank shall otherwise agree, the Province and TRA shall from time to time take all necessary measures (including, but without limitation, adjustments of the tariff structure and rates of TRA), satisfactory to the Bank as shall be required to provide TRA with revenues sufficient :

- (i) to produce an annual rate of return of not less than 6.5 % for TRA's fiscal years 1969 and 1970 and of not less than 7 % thereafter on the value of TRA's net fixed assets in operation; and

- (ii) to enable TRA out of internally generated resources :
 - (A) to meet interest on and amortization of debt;
 - (B) to maintain adequate working capital;
 - (C) to establish and maintain reserves adequate to meet contingencies; and
 - (D) to finance a reasonable proportion of its capital expenditures including replacement of assets.
- (b) For the purposes of this Section :
 - (i) The annual rate of return shall be calculated by relating the operating income for the year in question to the average of the value of the net fixed assets of TRA in operation at the beginning and at the end of each year.
 - (ii) The term "value of net fixed assets in operation" shall mean the gross book value assets, less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation acceptable to the Bank.
 - (iii) The term "operating income" shall mean the difference between :
 - (A) gross operating revenue accruing from TRA's services; and
 - (B) the operating and administration expenses, taxes (if any), adequate maintenance and depreciation but excluding interest and other charges on debt and contributions to the Province.
 - (iv) The assets administered by TRA shall be deemed to be assets of TRA.

Section 2.08. The Province shall cause TRA punctually to perform all the covenants and agreements on its part to be performed as set forth in the Project Agreement and the Subsidiary Loan Agreement, shall take all action which shall be necessary to enable TRA to perform such covenants and agreements and shall not take any action that would interfere with such performance.

Section 2.09. (a) TRA shall have its financial statements (balance sheet and related statement of earnings and expenses) certified annually by an independent auditor or accounting firm acceptable to the Bank and shall promptly after their preparation and not later than seven months after the close of TRA's fiscal year, transmit to the Bank certified copies of such statements and a signed copy of the auditor's or accounting firm's report.

(b) TRA shall submit to the Bank a copy of its unaudited financial statements (balance sheet and related statement of earnings and expenses) not later than three months after the close of TRA's fiscal year.

Section 2.10. Except as the Bank shall otherwise agree, during the period of January 1, 1970 to December 31, 1972, the Province shall not require TRA to contribute to the Province, in any of TRA's fiscal years, more than the equivalent of \$1,250,000.

Section 2.11. TRA shall not implement the electrification of its railway system without prior consultation with the Bank.

*Article III*MODIFICATION OF 1965 PROJECT AGREEMENT
AND 1968 PROJECT AGREEMENT

Section 3.01. For the purposes of the 1965 Project Agreement :

- (a) Section 2.07 is amended by the deletion of the provisions thereof and the substitution therefor of the provisions of Section 2.07 of this Agreement; and
- (b) Section 2.08 is deleted.

Section 3.02. For the purposes of the 1968 Project Agreement :

- (a) Section 2.07 is amended by the deletion of the provisions thereof and the substitution therefor of the provisions of Section 2.07 of this Agreement; and
- (b) Section 2.08 is deleted.

Article IV

EFFECTIVE DATE; TERMINATION

Section 4.01. This Project Agreement shall come into force and effect on the Effective Date.

Section 4.02. This Project Agreement shall terminate and the obligations of the parties hereunder shall cease and determine on the date when the Loan Agreement shall terminate in accordance with its terms.

Article V

MISCELLANEOUS

Section 5.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are :

For the Bank :

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

Alternative address for cables :

Intbafrad
Washington, D.C.

For the Province :

Governor of the Province of Taiwan
Taiwan Provincial Government
Nan-tou
Taiwan, China

Alternative address for cables :

TPG
Nan-tou

For TRA :

Taiwan Railway Administration
2 Yen-Ping Road (N)
Taipei
Taiwan, China

Alternative address for cables :

Tairail
Taipei

Section 5.02. (a) Any action required or permitted to be taken, and any document required or permitted to be executed, under this Project Agreement on behalf of the Province may be taken or executed by the Commissioner, Department of Communications of the Taiwan Provincial Government or such other person or persons as he shall designate in writing.

(b) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement on behalf of TRA may be taken or executed by the Managing Director of TRA or such other person or persons as TRA shall designate in writing.

Section 5.03. The Province and TRA shall furnish to the Bank sufficient evidence of the authority of the person or persons who will on behalf of the Province and of TRA respectively, take any action or execute any documents required or permitted to be taken or executed by the Province or TRA respectively, pursuant to any of the provisions of this Project Agreement and the authenticated specimen signature of each such person.

Section 5.04. This Project Agreement may be executed in several counterparts, each of which shall be an original and all collectively but one instrument.

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

International Bank for Reconstruction and Development :

By J. Burke KNAPP

Vice President

Province of Taiwan :

By Martin WONG

Authorized Representative

Taiwan Railway Administration :

By T. W. HU

Authorized Representative
