

CONFORMED COPY

LOAN NUMBER 3744 KZ

Loan Agreement

(Petroleum Technical Assistance Project)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 6, 1994

LOAN NUMBER 3744 KZ

LOAN AGREEMENT

AGREEMENT, dated December 6, 1994, between REPUBLIC OF KAZAKHSTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Project will be carried out by the Borrower with the assistance of the Project Companies (as hereinafter defined) and, to make possible such assistance, the Borrower will make available to the Project Companies a portion of the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

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

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

(a) "Subsidiary Agreement" means any of the agreements to be entered into between the Borrower and each Project Company pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Agreement;

(b) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated March 3, 1993 and July 12, 1993 between the Borrower and the Bank;

(c) "MG" means Munaigas, the Borrower's National Oil and Gas Holding Company;

(d) "MOG" means the Borrower's Ministry of Oil and Gas Industry;

(e) "MOF" means the Borrower's Ministry of Finance;

(f) "PIU" means the Project Implementation Unit referred to in Part F of the Project;

(g) "MG Subsidiary Agreement" means the Subsidiary Agreement to be entered into between the Borrower and MG pursuant to the provisions of Section 3.01 (b) of this Agreement;

(h) "KZG" means Kazakhgas, the Borrower's National Gas Production and Transmission Holding Company;

(i) "KZF" means Kazakhgazifikatsiya, the Borrower's National Gas Distribution Holding Company;

(j) "KZP" means Kaznefteprodukt, the Borrower's National Petroleum Product Distribution Holding Company;

(k) "Project Company" means any of the following: MG, KZG, KZF and KZP, and "Project Companies" means MG, KZG, KZF and KZP referred to collectively;

(l) "Advisory Board" means the advisory board referred to in Section 3.06 (b) of this Agreement;

(m) "Training Center" means the training center referred to in Section 3.06 (a) of this Agreement; and

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

## ARTICLE II

## The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifteen million seven hundred thousand dollars (\$15,700,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account (the Special Account) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be July 31, 1997 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions

thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

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

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

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

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

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Borrower's Minister of Oil and Gas Industry is designated as representative of the Borrower in respect of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out, through MOG, Parts A (1) and (3), B, C, D, E and F of the Project, with the assistance of the Project Companies as hereinafter provided, and Part A (2) of the Project through MOF, with the assistance of MOG, all with due diligence and efficiency and in conformity with appropriate administrative, petroleum industry, training and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make available the portion of the proceeds of the Loan allocated to Categories (1) (a) and (3) (a) in the table in Schedule 1 to this Agreement to the Project Companies under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and each of the Project Companies, under terms and conditions which shall have been approved by the Bank, including provisions on procurement, project accounting and audit, use of the proceeds of the Loan, consultants' services, right of the Bank to

supervise directly the execution of the Project, reporting requirement, insurance and cost recovery.

(c) The Borrower shall exercise its rights under each Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Subsidiary Agreement or any provision thereof.

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

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts B (1) and (2) of the Project shall be carried out by each Project Company pursuant to the provisions of the Subsidiary Agreements.

Section 3.04. The Borrower shall ensure that the PIU is at all times headed by a high ranking official of MOG, assisted by a coordinator with qualifications, terms of reference and experience satisfactory to the Bank, who shall be also assisted by qualified staff in adequate numbers and by consultants, acceptable to the Bank, advising on the following matters: procurement, disbursements, training and general project coordination and supervision.

Section 3.05. (a) The Borrower shall:

- (i) carry out all studies included in the Project under terms of reference satisfactory to the Bank which, when applicable, shall include specific programs or plans of action to meet the objectives of the Project;
- (ii) promptly after the completion of each study, furnish to the Bank copy of its findings and recommendations including such programs or plans of action; and
- (iii) afford the Bank a reasonable opportunity to comment on such findings, recommendations and programs or plans of action.

(b) The Borrower undertakes to carry out the programs and plans of action referred to in paragraph (a) of this Section as required to meet the objectives of the Project as set forth in Schedule 2 to this Agreement and to take into account the findings and recommendations of the studies included under the Project in its future investment plans in the petroleum and gas sectors.

Section 3.06. Regarding the training programs to be carried out under the Project, the Borrower shall:

- (a) establish a training center (the Training Center) responsible for the execution of Part C of the Project;
- (b) establish an advisory board (the Advisory Board), satisfactory to the Bank, including representatives of the Project Companies and other petroleum sector enterprises, to advise the Borrower on the content, scope and timing of the training programs to be carried out under the Project and assist in the supervision and evaluation of such programs;

(c) after the Advisory Board has evaluated and approved the training programs to be carried out under the Project, furnish to the Bank for approval the content of each of such programs as well as the schedule for its implementation;

(d) select the beneficiaries of such training programs in accordance with criteria satisfactory to the Bank;

(e) not later than September 30 of each year, exchange views with the Bank on the training programs to be carried out in the following calendar year; and

(f) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each training program and the benefits to be derived therefrom.

Section 3.07. Not later than June 30 and December 31 of each year, the Borrower shall prepare and furnish to the Bank a list of the proposed investments to be reviewed under Part A (3) of the Project.

Section 3.08. Not later than January 31, 1995, the Borrower shall prepare and furnish to the Bank a plan, satisfactory to the Bank, defining the scope of restructuring and privatization actions to be taken by the Borrower with regard to the petroleum sector. Such plan shall include a timetable for the execution of such actions.

Section 3.09. (a) Not later than July 31, 1995, the Borrower and the Bank shall exchange views on the progress achieved in carrying out the Project, and the plan referred to in Section 3.08 of this Agreement.

(b) Prior to such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Project and such plan, in such detail as the Bank shall reasonably request.

Section 3.10. (a) The Borrower shall establish arrangements, satisfactory to the Bank, to recover the cost of legal and investment technical assistance services provided under the Project for the benefit of juridically independent petroleum sector enterprises.

(b) As part of the foregoing, the Borrower shall establish and apply a fee system, satisfactory to the Bank, for the training provided under the Project, which will allow the Borrower to recover the reasonable cost of all expenditures incurred by the Borrower in providing training services to the staff of such petroleum sector enterprises.

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section and the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
  - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
  - (ii) retain, until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
  - (iii) enable the Bank's representatives to examine such records; and
  - (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) Any Project Company shall have failed to perform any of its obligations under a Subsidiary Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that a Project Company will be able to perform its obligations under a Subsidiary Agreement.
- (c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of a Project Company or for the suspension of its operations and such dissolution, disestablishment or suspension of operations has materially affected the execution of the Project or the achievement of its objectives.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraph (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the MG Subsidiary Agreement has been executed on behalf of the Borrower and MG; and

(b) that the Borrower, through MOG, has employed a project execution advisor and a procurement advisor, with terms of reference and qualifications satisfactory to the Bank, for the PIU.

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

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Borrower's Minister of Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Finance  
97 Ablai-Khan Av.  
Almaty, 480091  
Republic of Kazakhstan

Telex:

251 245 FILIN

With copies to:

Ministry of Oil and Gas Industry  
142 Bogenbay Batyr Street  
Almaty, 480091  
Republic of Kazakhstan

Telex:

251-154

For the Bank:

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

Cable address:

Telex:

INTBAFRAD

248423 (RCA)



Washington, D.C.

82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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

REPUBLIC OF KAZAKHSTAN

By /s/ Toleutaj Souleimenov  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang  
Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultants' services:		100%
(a) under Part B(1) of the Project	1,900,000	
(b) under Part A(2) of the Project	200,000	
(c) under Part C(1) and C(2) of the Project	1,900,000	
(d) under the other Parts of the Project	6,100,000	
(2) Training expenditures under Part C(3) of the Project	1,400,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Office		100% of foreign

equipment:		expenditures,
(a) under Part B(2)	500,000	100% of local
of the		expenditures
Project		(ex-factory
		cost) and 75%
(b) under the other	100,000	of local
Parts of the		expenditures for
Project		other items
		procured locally
(4) Refunding of	1,500,000	Amounts due
Project		pursuant to
Preparation		Section 2.02 (c)
Advance		of this Agreement
(5) Unallocated	2,100,000	
	<hr/>	
TOTAL	15,700,000	
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2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) expenditures incurred by a Project Company under Categories 1(a) or 3(a), unless the Bank has received evidence satisfactory to the Bank that such Project Company and the Borrower have entered into a valid and binding Subsidiary Agreement which covers such expenditures; and (c) expenditures incurred under Categories 1(c) and 2 unless the Bank has received evidence that the Borrower has established the Training Center and the Advisory Board in a manner satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods and services not exceeding \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to provide assistance in the design and development of the Borrower's policies and strategies aimed at: (a) attracting foreign investment into its petroleum sector; (b) promoting the efficiency and long-term technical and financial viability of the petroleum industry; and (c) formulating least-cost and economically sound investment and organization strategies for the integration of processing, transport and distribution of domestic petroleum products.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Foreign Investment Promotion

Provision of technical assistance and training services: (1) to support the Borrower's efforts to create an effective framework for promoting foreign investment in the petroleum sector; (2) to formulate specific taxation policies for the petroleum industry and draft the necessary legal and regulatory instruments; and (3) to assist in carrying out technical, economic, legal and environmental feasibility studies of specific investments in the petroleum sector and in the structuring and negotiation of specific investment transactions with prospective investors.

Part B: Petroleum Industry and Restructuring and Corporatization

Provision of technical assistance, training services and office equipment, to assist the Borrower in carrying out a program for the corporatization and restructuring of the petroleum industry and establishing the basis for an increased private sector participation in the industry, including: (1) establishment by the Project Companies of financial management control procedures to ensure the effective performance of the enterprises under their control; (2) provision of office equipment to support the implementation by the Project Companies of improved financial and management control procedures; (3) definition and implementation of restructuring and rationalization options for selected enterprises in the sector; and (4) determination of the position of restructured enterprises and initial determination of the financial position and value of enterprises selected for privatization.

Part C: Petroleum Industry Training

Provision of technical assistance, training services, and equipment and materials to assist the Borrower in: (1) identifying and addressing, through development of appropriate training plans and programs, priority training needs in the petroleum sector; (2) preparing and carrying out training programs in market-oriented petroleum industry operations and management, petroleum economics and marketing practices; and (3) implementing a program of training seminars in Kazakhstan and of secondment abroad of selected managers in the petroleum industry.

Part D: Pipeline Feasibility Studies

Provision of technical assistance services to review the technical, economic, legal and environmental feasibility of specific investment projects included in the Borrower's plans to construct oil product pipelines as well as a crude oil pipeline to connect the oil fields in Western Kazakhstan to the refineries in Eastern Kazakhstan.

Part E: Natural Gas Investment Strategies

Provision of technical assistance services to assist the Borrower in: (1) assessing the regional and domestic market potential for natural gas; and (2) designing plans and strategies regarding the supply and investment options for Kazakhstan to participate in meeting such market demands.

Part F: Project Administration

Establishment and operation of a project implementation unit (the PIU), within MOG, with functions and responsibilities satisfactory to the Bank, including the overall coordination and administration of the activities to be carried out under the Project and the procurement of goods and services required therefor.

The Project is expected to be completed by January 31, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each May 15 and November 15 beginning November 15, 1999 through November 15, 2010	655,000
And on May 15, 2011	635,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65

More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods

###### Part A: Procurement Procedures

1. Items or groups of items for office equipment may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

2. Items or groups of items for office equipment and materials estimated to cost the equivalent of \$10,000 or less per contract, up to an aggregate amount equivalent to \$100,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

###### Part B: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

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

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

###### Section II. Employment of Consultants

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

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists,

selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,600,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

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

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

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

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

