

CONFORMED COPY

LOAN NUMBER 3867 KZ

Loan Agreement

(Financial and Enterprises Development Project)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated July 31, 1995

LOAN NUMBER 3867 KZ

LOAN AGREEMENT

AGREEMENT, dated July 31, 1995, 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) Parts B.2, B.3, B.4 and C(d) of the Project will be carried out by the National Bank of the Republic of Kazakhstan (NBK) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to NBK 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 and in the Project Agreement of even date herewith between the Bank and NBK;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

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

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

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

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

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

(a) "Banking Development Project" means a project to finance, pursuant to a Subsidiary Financing Agreement, the restructuring, modernization and strengthening of operational and financial capabilities of the Qualified Bank utilizing the proceeds of the Banking Development Sub-loan, selected in accordance with the procedures and accreditation criteria set forth in Parts A and B of Schedule 1 to the Project Agreement.

(b) "Banking Development Sub-loan" means a foreign currency sub-loan made or proposed to be made by NBK, pursuant to a Subsidiary Financing Agreement, out of the proceeds of the Loan to a Qualified Bank for a Banking Development Project.

(c) "MOE" means the Borrower's Ministry of Economy.

(d) "MOF" means the Borrower's Ministry of Finance.

(e) "NBK" means the National Bank of the Republic of Kazakhstan, the Borrower's central bank established and operating pursuant to the Borrower's Law on the National Bank of the Republic of Kazakhstan, dated April 13, 1993, as the same may be amended from time to time.

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

(g) "Qualified Banks" means two medium and two large size banking institutions registered and accredited in the territory of the Borrower and selected in accordance with the procedures and accreditation criteria set forth in Parts A and B of Schedule 1 to the Project Agreement to carry out the Banking Development Project.

(h) "PIUs" means the project implementation units established and maintained by the Borrower within MOF, MOE, and NBK and referred to in Schedule 5 to this Agreement.

(i) "Project Agreement" means the agreement between the Bank and NBK of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(j) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated April 17, 1995 and May 16, 1995 between the Borrower and the Bank.

(k) "RAU" means the restructuring advisory unit established and maintained by the Borrower pursuant to Section 3.01 (b) (ii) of this Agreement.

(l) "Rehabilitation Trust" means the debt resolution institution established and maintained by the Borrower pursuant to Presidential Decree No. 2154, dated March 29, 1995.

(m) "SCSP" means the Borrower's State Committee for State Property or any successor thereto.

(n) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement.

(o) "Subsidiary Financing Agreement" means any agreement between NBK and a Qualified Bank, referred to in Schedule 1 to the Project Agreement, as the same may be amended from time to time, concerning the financing of Banking Development Project by NBK, and such term includes all schedules to such Subsidiary Financing 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 sixty two million dollars (\$62,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars three special deposit accounts 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 Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

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

Section 2.03. The Closing Date shall be September 30, 1998 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 January 15 and July 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. NBK is designated as representative of the

Borrower in respect of Parts B.2, B.3, B.4 and C 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:

- (i) shall carry out Parts A, B.1 and C(a), (b) and (c) of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause NBK to perform all NBK's obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable NBK to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

- (i) carry out Parts A, B.1 and C(a), (b) and (c) of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement; and
- (ii) establish and maintain the RAU, as an independent unit with its own budget, in a manner and with staffing satisfactory to the Bank and appropriate for the carrying out Part A.2 of the Project.

(c) The Borrower shall relend the equivalent of the proceeds of the Loan allocated to Categories (1) (b) and (c), (2) (c) and (e), and (3) (c) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to NBK under a subsidiary loan agreement (NBK Subsidiary Loan Agreement) to be entered into between the Borrower and NBK, under terms and conditions which shall have been approved by the Bank and which shall include the terms and conditions governing, inter alia:

- (i) the carrying out by NBK of Parts B.2, B.3, B.4 and C(d) of the Project with diligence and efficiency and in conformity with appropriate administrative, financial, and banking practices and the applicable provisions of the Project Agreement;
- (ii) the utilization of funds and procurement of goods and consultants' services required for Parts B.2, B.3, B.4 and C(d) of the Project;
- (iii) the maintenance of records and accounts adequate to reflect in accordance with sound accounting practices the resources and expenditures related to the procurement of goods and consultants' services required for Parts B.2, B.3, B.4 and C(d) of the Project and the

auditing of such records and accounts in accordance with appropriate auditing standards;

- (iv) assumption of foreign exchange risk;
- (v) principal amount to be lent by the Borrower to NBK, the currency in which such a loan is to be made, the interest rate and other payments to be made by NBK to the Borrower, and maturity and grace periods applicable to such a loan; and
- (vi) the accreditation criteria pursuant to which NBK shall select the Qualified Banks and the terms and conditions pursuant to which NBK shall make the Banking Development Sub-loans to the Qualified Banks under the Subsidiary Financing Agreements.

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts A, B.1 and C(a), (b), and (c) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

Section 3.04. 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 (or rights related to land), respectively) in respect of Parts B.2, B.3, B.4 and C(d) of the Project shall be carried out by NBK pursuant to Section 2.03 of the Project Agreement.

#### 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 Parts A, B.1 and C(a), (b) and (c) of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for

the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Accounts 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) NBK shall have failed to perform any of its obligations under the Project 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 NBK will be able to perform its obligations under the Project Agreement.

(c) The Borrower's Law on the National Bank of the Republic of Kazakhstan shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NBK to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NBK or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower and NBK; and

(b) any event specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the NBK Subsidiary Loan Agreement has been executed on behalf of the Borrower and NBK.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by NBK, and is legally binding upon NBK in accordance with its terms; and

(b) that the NBK Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and NBK and is legally binding upon the Borrower and NBK 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 Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Telex:

251 245 FILIN

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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



197688 (TRT)

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

REPUBLIC OF KAZAKHSTAN

By /s/ Touleoutai 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) Goods for:	)	
	)	
(a) Parts A.2 and A.3 of the Project	120,000)	100% of foreign expenditures, 100% of local expenditures, (ex-factory cost) and 75%
	)	
(b) Parts B.4 and C(d) of the Project	22,850,000)	of local expenditures for other items procured locally
	)	
(c) Part B.2 of the Project	8,000,000)	
	)	
(2) Consultants' services for:		
(a) Part A.1 of the Project	4,925,000	100%
(b) Parts A.2 and A.3 of the Project	10,035,000	100%
(c) Parts B.4 and C(d) of the Project	1,545,000	100%
(d) Part B.1 of	1,850,000	100%

	the Project		
(e)	Part B.2 of the Project	4,000,000	100%
(f)	Parts C(a), (b) and (c) of the Project	546,000	100%
(3)	Training for:		
(a)	Part A.1 of the Project	78,000	100%
(b)	Parts A.2 and A.3 of the Project	1,102,000	100%
(c)	Part B.3 of the Project	999,000	100%
(4)	Refunding of Project Preparation Advance	1,500,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5)	Unallocated	4,450,000	
	TOTAL	62,000,000	=====

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

(a) expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$6,200,000, may be made in respect of Categories (1), (2) and (3) of this Schedule on account of payments made for expenditures before that date but after June 30, 1994;

(b) expenditures in respect of Category (2) (d) of this Schedule, unless: (i) the Rehabilitation Trust has been duly established in accordance with Presidential Decree No. 2154, dated March 29, 1995 and in a manner satisfactory to the Bank; and (ii) the Borrower has adopted legal and regulatory enactments, satisfactory to the Bank, governing out-of-court settlement of debt claims and necessary for the successful functioning of the Rehabilitation Trust; and

(c) expenditures in respect of Categories (1) (c) and (2) (e) of this Schedule, unless the Banking Development Project concerned has been approved in accordance with the procedures, accreditation criteria and on terms and conditions set forth in Schedule 1 to the Project Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods and services under contracts not exceeding \$10,000 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 facilitate the enterprise sector reform, improve banking services, and strengthen the regulatory framework and institutional capabilities of the Borrower's financial system.

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: Enterprise Sector Reform

##### 1. Privatization Assistance

Implementation of the Borrower's privatization program through the provision of consulting services and training.

##### 2. Restructuring Advisory Unit

Restructuring, privatization and liquidation assistance to enterprises located within the territory of the Borrower through the provision of consulting services, training and goods to the RAU.

##### 3. Study Tour Program for Enterprise Managers

Strengthening of the management, financial, and marketing capabilities of managers of enterprises located within the territory of the Borrower through the provision of training and consulting services.

#### Part B: Financial Sector Reform

##### 1. Rehabilitation Trust

Assistance in the management, restructuring and liquidation of indebted enterprises located within the territory of the Borrower through the provision of consulting services, training and goods for the operation of the Rehabilitation Trust.

##### 2. Commercial Banking Development

Development and strengthening of the commercial banking sector through the provision of goods and consulting services under Banking Development Projects.

##### 3. Institution Building for On-Site Bank Supervision

Strengthening of the on-site bank supervision capabilities of NBK through the provision of training.

##### 4. Long-Term Payment System

Development of an effective and efficient payment system through the provision of goods, consulting services and training.

#### Part C: Project Implementation Assistance

Strengthening of the Borrower's Project implementation capabilities through the provision of consulting services, training, and goods to: (a) MOF; (b) SCSP; (c) MOE; and (d) NBK.

\* \* \*

The Project is expected to be completed by March 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15 beginning January 15, 2001 through January 15, 2012	2,585,000
And on July 15, 2012	2,545,000

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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: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.2 (a) of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the Republic of Kazakhstan may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

1. Items or groups of items for specialized goods with a limited number of suppliers, up to an aggregate amount equivalent to \$400,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from a list of potential suppliers eligible under the Guidelines broad enough to ensure competitive prices, and in accordance with procedures set forth in Sections III, paragraph 3.2 of the Guidelines.

2. Items or groups of items for goods estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$800,000, 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 satisfactory to the Bank.

3. Items or groups of items for goods estimated to cost the equivalent of \$50,000 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 satisfactory to the Bank.

4. Contracts for goods which the Bank agrees are of proprietary nature, up to an aggregate amount equivalent to \$1,000,000, may be awarded after direct negotiations with suppliers, in accordance with procedures satisfactory to the Bank.

#### Part D: 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 awarded under international competitive bidding procedures referred to in Part A.1 hereof, limited international bidding procedures referred to in Part C.1 hereof, direct shopping procedures referred to in Part C.4 hereof, and the first two contracts awarded under international shopping procedures referred to in Part C.2 hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Accounts, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Accounts in respect of such contract.

(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. Where payments for such contract are to be made out of the Special Accounts, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(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 15% 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 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications 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: (a) contracts for the employment of consulting firms, estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants, estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms, raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants, raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 5

##### Implementation Program

1. The following agencies of the Borrower shall, on behalf of the Borrower, implement the following parts of the Project, subject to the provisions of paragraph 2 of this Schedule 5:

Agency	Parts of the Project
SCSP	Parts A.1 and C(b)
MOE	Parts A.2, A.3 and C(c)
MOF	Parts B.1 and C(a)
NBK	Parts B.2, B.3, B.4 and C(d)

2. NBK shall also be responsible for the procurement and disbursement of consulting services, training and goods under Parts C(a), C(b) and C(c) of the Project, and the MOE shall also be responsible for the procurement and disbursement of consulting services, training and goods under Part B.1 of the Project.

#### SCHEDULE 6

##### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 2(a) and 3(a) in the case of Special Account A, Categories 1(a), 2(b), 2(d) and 3(b) in the case of Special Account B, and Categories 1(b), 1(c), 2(c), 2(e), 2(f) and 3(c) in the case of Special Account C, 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: (i) an amount equivalent to \$100,000 to be withdrawn from the Loan Account and deposited into the Special Account A pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$50,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$0.5 million; (ii) an amount equivalent to \$200,000 to be withdrawn from the Loan Account and deposited into the Special Account B pursuant

to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$100,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$1.5 million; and (iii) an amount equivalent to \$300,000 to be withdrawn from the Loan Account and deposited into the Special Account C pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$100,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$4.0 million.

2. Payments out of the Special Accounts 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 Accounts has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 appropriate Special Accounts such amount or amounts as the Borrower shall have requested.

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

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

(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) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts; or

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall 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 Accounts 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 Accounts: (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 Accounts (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 Accounts 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 Accounts 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 Accounts.

(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.

