

CONFORMED COPY

LOAN NUMBER 4486 KZ

Loan Agreement

(Atyrau Pilot Water Supply and Sanitation Project)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 3, 1999

LOAN NUMBER 4486 KZ

LOAN AGREEMENT

AGREEMENT, dated August 3, 1999, 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 (the Project), has requested the Bank to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997, (the General Conditions), constitute an integral part of this 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) "Annual Performance Agreements" means year-specific financial and operational performance agreements to be entered into annually during Project implementation by the Atyrau Oblast Akimat and Vodocanal, pursuant to Section 3.01 (d) of this Agreement, and in accordance with the terms set forth or referred to in paragraph 3 of Schedule 7 to this Agreement, as the same may be amended from time to time;

(b) "Atyrau Oblast Akimat" means the Atyrau Oblast Akimat of the Borrower, or any successor thereto;

(c) "City of Atyrau" means City of Atyrau of the Borrower, or any successor thereto;

(d) "CWR" means Committee for Water Resources under the Ministry of Agriculture of the Borrower, or any successor thereto;

(e) "MOF" means Ministry of Finance of the Borrower, or any successor thereto;

(f) "PMR" means a project management report prepared in accordance with section 4.02 (a) of this Agreement;

(g) "Project Implementation Agreement" means the agreement on Project implementation responsibilities among the MOF, CWR, Atyrau Oblast Akimat and City of Atyrau, dated May 10, 1999, as the same may be amended from time to time;

(h) "Project Implementation and Subsidiary Loan Agreement" means the agreement to be entered into between the Atyrau Oblast Akimat and Vodocanal pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Project Implementation and Subsidiary Loan Agreement, and the Annual Performance Agreements;

(i) "PMR" means a project management report prepared in accordance with section 4.02 (a) of this Agreement;

(j) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on November 25, 1998, and on behalf of the Borrower on December 3, 1998;

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

(l) "Subsidiary Loan Agreement" means the agreement to be entered between the MOF and Atyrau Oblast Akimat pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and

(m) "Vodocanal" means the Atyrau Gorvodocanal, a state municipal enterprise established by the City of Atyrau and registered by the Atyrau Oblast Ministry of Justice Department on December 12, 1991, or any successor thereto.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to the Vodocanal.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to sixteen million five hundred thousand Dollars (\$16,500,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures

made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

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

Section 2.03. The Closing Date shall be September 30, 2004, 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 fee in the amount of one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of the said fee.

Section 2.05. 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 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank

determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower, through the Atyrau Oblast Akimat, shall cause the Vodocanal to carry out Parts A, B and C.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and technical practices, and shall take and cause to be taken all actions necessary or appropriate to enable the Vodocanal to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project through the MOF, CWR, Atyrau Oblast Akimat and City of Atyrau, and shall cause Vodocanal to carry out Parts A, B and C.1 of the Project, all in accordance with the Project Implementation Agreement, and the Implementation Program set forth in Schedule 5 to this Agreement.

(d) For the purposes of the Project, the Borrower shall relend the proceeds of the Loan to the Atyrau Oblast Akimat under a subsidiary loan agreement (Subsidiary Loan Agreement) to be entered into between the MOF and Atyrau Oblast Akimat, under terms and conditions which shall have been approved by the Bank, and the Atyrau Oblast Akimat shall make available the works and goods financed with the proceeds of the Loan allocated from time to time to Categories (1) and (3) of the table in paragraph 1 of Schedule 1 to this Agreement to the Vodocanal under a project implementation and subsidiary loan agreement to be entered into between the Borrower and Vodocanal (the Project Implementation and Subsidiary Loan Agreement), and annual performance agreements (Annual Performance Agreements), under terms and conditions which shall have been approved by the Bank. Except as the Bank shall otherwise agree, such terms and conditions shall include the terms and conditions set forth or referred to in Schedule 7 to this Agreement.

(e) The Borrower shall exercise its rights under the Subsidiary Loan Agreement, Project Implementation Agreement, and shall cause the Atyrau Oblast Akimat to exercise its rights under the Project Implementation and Subsidiary Loan Agreement and Annual Performance Agreements, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement and Project Implementation Agreement, and shall cause the Atyrau Oblast Akimat not to assign, amend, abrogate or waive the Project Implementation and Subsidiary Loan Agreement and Annual Performance Agreements, or any provision thereof. Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish not later than June 30, 1999, and thereafter at all times maintain a financial management system, including records and accounts in accordance with appropriate accounting principles consistently applied, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 PMRs or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 PMRs or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than February 15, 2000, or such later date as the Bank shall agree, to prepare quarterly Project management reports (PMRs), acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the

proceeds of the Loan during the period covered by said report  
and expenditures proposed to be financed out of the proceeds of the  
Loan during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both  
cumulatively and for the period covered by said report, and (B) explains  
variances between the actual and previously forecast implementation  
targets; and

(iii) sets forth the status of procurement under the Project and  
expenditures under contracts financed out of the proceeds of the Loan,  
as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of  
this Section, the Borrower shall prepare, in accordance with guidelines acceptable to  
the Bank, and furnish to the Bank not later than 45 days after the end of each  
calendar quarter a PMR for such period.

#### ARTICLE V

##### Remedies of the Bank

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

(a) the Subsidiary Loan Agreement shall have been amended, suspended,  
abrogated, repealed or waived so as to affect materially and adversely the ability of  
the Atyrau Oblast Akimat to carry out the Project;

(b) the Project Implementation Agreement shall have been amended, suspended,  
abrogated, repealed or waived so as to affect materially and adversely the ability of  
the MOF, CWR, Atyrau Oblast Akimat or City of Atyrau to carry out the Project;

(c) the Project Implementation and Subsidiary Loan Agreement shall have been  
amended, suspended, abrogated, repealed or waived so as to affect materially and  
adversely the ability of the Vodocanal to carry out Parts A, B and C.1 of the Project;  
and

(d) the Vodocanal shall have failed to perform any of its obligations under  
the Project Implementation and Subsidiary Loan Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the  
following additional events are specified, namely any events specified in 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.

#### ARTICLE VI

##### Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been executed on behalf of the MOF and  
Atyrau Oblast Akimat;

(b) the Project Implementation and Subsidiary Loan Agreement has been  
executed on behalf of the Atyrau Oblast Akimat and Vodocanal; and

(c) the Atyrau Oblast Akimat has appointed the auditors referred to in  
Section 4.01 (b) (i) of this Agreement, and the CWR and Atyrau Oblast Akimat have  
appointed the financial and procurement consultants, all under terms of reference  
satisfactory to the Bank, and the Atyrau Oblast Akimat has installed an accounting  
system software satisfactory to the Bank.

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) the Subsidiary Loan Agreement has been duly authorized or ratified by the MOF and Atyrau Oblast Akimat, and is legally binding upon each of the parties thereto in accordance with its terms;

(b) the Project Implementation Agreement has been duly authorized or ratified by the MOF, CWR, Atyrau Oblast Akimat and City of Atyrau and is legally binding upon each of the parties thereto in accordance with its terms; and

(c) the Project Implementation and Subsidiary Loan Agreement has been duly authorized or ratified by the Atyrau Oblast Akimat and Vodocanal, and is legally binding upon each of the parties thereto in accordance with its terms.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance  
60 Republic Avenue  
473000 Astana  
Republic of Kazakhstan

Telex:

264126 (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 (MCI) or  
64145 (MCI)

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

REPUBLIC OF KAZAKHSTAN

By /s/ Bolat Nurgaliyev

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kiyoshi Kodera  
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) Civil works	11,180,000	80%
(2) Consultants' services	2,500,000	100%
(3) Goods	620,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(4) Incremental Operating Costs	500,000	80%
(5) Refunding of Project Preparation Advance	1,000,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6) Fee	165,000	Amount due pursuant to Section 2.04 of this Agreement
(7) Unallocated	535,000	
TOTAL	<hr style="width: 10%; margin: 0 auto;"/> 16,500,000 =====	

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;

(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; and

(c) the term "Incremental Operating Costs" means the incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, utilities, communication, transportation, travel, consultants'



services, including auditing services, and supervision costs, but excluding salaries of officials of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods, under contracts costing less than \$75,000 equivalent each; (b) works, under contracts costing less than \$100,000 equivalent each; and (c) incremental operating costs, all 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 strengthen the capacity of the Vodocanal to provide the City of Atyrau reliable and safe drinking water, and to dispose sewage in an efficient, sustainable and environmentally safe manner.

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: Water and Sewage System Rehabilitation

Improvement of the water supply and sewerage systems in the Privakzalny and City Center micro-districts of the City of Atyrau through rehabilitation and replacement of water pipes, construction of a new booster pumping station, construction of an inverted siphon, replacement and rehabilitation of sewerage pipes, and renovation of pumping stations and mains.

#### Part B: Emergency Repairs

Emergency repairs of the water supply and sewerage systems, and replacement of meters, pumps and other items identified by the Vodocanal during Project implementation which can make immediate and significant improvements in the Vodocanal operating costs and efficiency of operation, through the financing of goods and works.

#### Part C: Project Management and Institutional Strengthening

1. Technical assistance to strengthen the institutional capacity, management and financial capacity of the Vodocanal, including leak and demand management study, wastewater and drainage water disposal options study, financial and accounting system implementation, and preparation of draft financial and operational performance contract.

2. Technical assistance to strengthen the institutional capacity, financial management and administration of the City of Atyrau, including preparation of a medium-term city infrastructure rehabilitation plan.

3. Technical assistance to the CWR and Atyrau Oblast Akimat in the management, implementation and supervision of the Project, including design and implementation of system of financial management and accounting, preparation of the accounts and financial statements referred to in Article IV of this Agreement, and audit of the accounts and financial statements referred to above, through the financing of incremental operating costs, including external auditing services.

\* \* \*

The Project is expected to be completed by March 31, 2004.

## SCHEDULE 3

### Amortization Schedule

Payment of Principal

Date Payment Due	(expressed in Dollars)**
February 15, 2005	365,000
August 15, 2005	375,000
February 15, 2006	385,000
August 15, 2006	395,000
February 15, 2007	405,000
August 15, 2007	415,000
February 15, 2008	425,000
August 15, 2008	440,000
February 15, 2009	450,000
August 15, 2009	460,000
February 15, 2010	475,000
August 15, 2010	485,000
February 15, 2011	500,000
August 15, 2011	515,000
February 15, 2012	530,000
August 15, 2012	545,000
February 15, 2013	555,000
August 15, 2013	575,000
February 15, 2014	590,000
August 15, 2014	605,000
February 15, 2015	620,000
August 15, 2015	635,000
February 15, 2016	655,000
August 15, 2016	675,000
February 15, 2017	690,000
August 15, 2017	710,000
February 15, 2018	730,000
August 15, 2018	750,000
February 15, 2019	770,000
August 15, 2019	775,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section.

###### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B. Prequalification Bidders for contracts for works under Part A of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

###### Part C: Other Procurement Procedures

###### 1. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract procured under Parts B. 1 hereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract procured under Part C. 1 hereof and the first two contracts procured under Parts C.2 or C.3 hereof, the following procedures shall apply:

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

(ii) prior to the selection of any supplier or execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997, and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection.

Services for financial technical assistance under Part C.1 of the Project which are estimated to cost up to an aggregate amount not to exceed \$100,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants.

Services under Part C of the Project that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between

the Borrower and the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than three (3) weeks following the end of each quarter of each year during Project implementation, a report describing Project implementation during that quarter;

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than January 31 of each year during Project implementation, a report describing Project implementation during that year, including the results of semi-annual review of the Vodocanal performance and operation, and annual work plans for the next year;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(e) review with the Bank, by July 31, 2001, or such later date as the Bank shall request, the report referred to in subparagraph (d) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

2. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project, and afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

3. By September 30, 2001, the Atyrau Oblast Akimat shall adopt regulations enabling the Vodocanal to collect water and wastewater charges sufficient to ensure that the Vodocanal's projected operating revenues are sufficient to meet the Vodocanal's projected expenses, in accordance with Schedule 7, subparagraph 2 (g).

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) 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 \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 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 \$4,000,000.

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

3. After the Bank has received evidence satisfactory to it that the Special Account

has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

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

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount

of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

#### SCHEDULE 7

##### Terms and Conditions of the Project Implementation and Subsidiary Loan Agreement; Procedures and Terms and Conditions of the Annual Performance Agreements

1. The Project Implementation and Subsidiary Loan Agreement shall provide that:

(a) the principal amount of the subsidiary loan shall be repaid by the Vodocanal in the currency of the Borrower in equal semi-annual installments over twenty years, including a grace period of five years;

(b) the principal amount of the subsidiary loan repayable by the Vodocanal shall be the equivalent in Dollars (determined as of the date, or respective dates, of repayment) of the value of the currency or currencies withdrawn from the Loan Account in respect of the works and goods financed with the proceeds of the Loan and made available to the Vodocanal under the Project Implementation and Subsidiary Loan Agreement;

(c) interest shall be denominated in Dollars and charged on the withdrawn and outstanding balance of the subsidiary loan at a rate equal to the rate payable by the Borrower from time to time pursuant to Section 2.05 (a) of this Agreement; any interest payable during the grace period may be capitalized against the principle amount of the subsidiary loan; and

(d) a commitment charge on the amount of the subsidiary loan not withdrawn from time to time shall be equal to the percentage of the commitment charge paid by the Borrower to the Bank pursuant to Section 2.04 of this Agreement;

2. The Project Implementation and Subsidiary Loan Agreement shall require, inter alia, that the Vodocanal:

(a) carry out and operate the Project with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound technical, engineering, environmental, financial, and managerial standards;

(b) operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, environmental and technical practices;

(c) maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial conditions of the Vodocanal, and to register separately the operations, resources and expenditures related to the Project;

(d) have the records, accounts and financial statements related to the Project for each fiscal year audited, in accordance with appropriate auditing

principles consistently applied, by independent auditors satisfactory to the Borrower and the Bank, and furnish to the Borrower not later than six (6) months after the end of each such year certified copies of the financial statements for such year so audited and the report of such audit by the auditors of such scope and such detail as the Borrower and the Bank shall have reasonably requested;

(e) allow the Borrower, by itself or jointly with representatives of the Bank, if the Bank shall so request, to inspect the goods and the sites, works, plants and construction financed under the Project, the operation thereof, and any relevant records and documents, including the financial records of the Vodocanal related to the Project;

(f) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including insurance covering hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made to replace or repair such goods;

(g) (i) ensure that for each fiscal year during Project implementation, the Vodocanal's projected operating revenues are sufficient to meet the Vodocanal's projected expenses for that fiscal year;

(ii) by or before August 1 of each fiscal year during Project implementation, the Atyrau Oblast Akimat shall review, on the basis of forecasts prepared by the Vodocanal and satisfactory to the Bank, whether the Vodocanal would be able to meet the requirements set forth in paragraph (g) (i) above in respect of such year and the next following fiscal year, and shall furnish to the Bank a copy of such review upon its completion;

(iii) if any such review shows that the Vodocanal would not meet the requirements set forth in paragraph (g) (i) for the Vodocanal's fiscal year covered by such review, the Atyrau Oblast Akimat shall promptly take, and ensure that the Vodocanal shall promptly take, all necessary measures (including, without limitation, adjustments of the structure or level of its rates) in order to meet such requirements; and

(iv) for the purposes of this subparagraph (g):

(A) the term "projected operating revenues" means the sum of collected revenues from all sources related to operations, consumer deposits, operating subsidies received by the Vodocanal, and consumer contributions in aid of construction;

(B) the term "projected operating expenses" means all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), interest payable on all debt related to the Vodocanal's operations, and the larger of the depreciation allocation or loan amortization, all cash dividends and other cash distributions of surplus, and other cash outflows other than capital expenditures;

(C) the term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends;

(D) the term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations;



(E) whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

(h) ensure that the setting and collection of water and wastewater charges during Project implementation is done in an effective manner, which shall mean, among other things, that the Vodocanal's water and wastewater average annual collection rates shall be no less than 70 percent by June 30, 2000, no less than 75 percent by June 30, 2001, no less than 80 percent by June 30, 2002, and no less than 85 percent by June 30, 2003.

(i) (i) ensure that it does not incur any debt unless a reasonable forecast of the Vodocanal's revenues and expenditures shows that the estimated net revenues of the Vodocanal for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Vodocanal in such year on all debt of the Vodocanal, including the debt to be incurred;

(ii) for the purposes of this subparagraph:

(A) the term "debt" means any indebtedness of the Vodocanal maturing by its terms more than one year after the date on which it is originally incurred;

(B) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;

(C) the term "net revenues" means the difference between:

(aa) the sum of revenues from all sources related to operations adjusted to take account of the Vodocanal's rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and

(bb) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;

(D) the term "net non-operating income" means the difference between revenues from all sources other than those related to operations, and expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues described above;

(E) the term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any), of, and interest and other charges on, debt;

(F) whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made

on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank;

(j) prepare and promptly furnish to the Borrower all such information as the Borrower or the Bank shall reasonably request relating to the administration, operations and financial condition of the Vodocanal;

(k) agree upon an action plan, satisfactory to the Bank, including: (i) introduction of metering and consumption-based billing in the Project area by January 1, 2001, or by the time the Project rehabilitation works are completed, whichever comes first; and (ii) strengthening of the organization, management, financial, commercial, technical and investment planning and evaluation capacity of the Vodocanal;

(l) give the Borrower the right to suspend or terminate the right of the Vodocanal to the use of the goods and works financed by the subsidiary loan upon Vodocanal's failure to perform its obligations under the Project Implementation and Subsidiary Loan Agreement; and

(m) at the conclusion of the Project, submit to the Borrower, in a manner and by date satisfactory to the Borrower, a Project completion report.

3. The Project Implementation and Subsidiary Loan Agreement shall be supplemented by year-specific Annual Performance Agreements. The following procedures shall apply in connection with the preparation and execution of each Annual Performance Agreement:

(a) by December 15 of each calendar year, the Atyrau Oblast Akimat and the Vodocanal shall prepare a proposed (draft) Annual Performance Agreement for the next calendar year which shall contain the terms and conditions set forth in paragraph 4 of this Schedule 7, and shall submit such proposed Annual Performance Agreement to the Bank for review and comment; and

(b) upon the Bank's review and no objection to such a proposed Annual Performance Agreement, the Atyrau Oblast Akimat and Vodocanal shall promptly enter into the Annual Performance Agreement.

4. Each Annual Performance Agreement shall include operational and financial targets to be met by the Vodocanal during the year.

