

CONFORMED COPY

LOAN NUMBER 4217 KZ

Loan Agreement

(Public Sector Resource Management Adjustment Loan)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Dated September 4, 1997

LOAN NUMBER 4217 KZ

LOAN AGREEMENT

AGREEMENT, dated September 4, 1997, between REPUBLIC OF KAZAKHSTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated August 1, 1997, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's public resource management system (the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) Section 2.01, paragraph 9, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) The last sentence of Section 3.02 is deleted;

(c) Section 4.01 is modified to read:

"Except as the Borrower and the Bank shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.";

(d) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.";

(e) The last sentence of Section 5.03 is deleted;

(f) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (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.";

(g) Section 9.07 (c) is modified to read:

"(c) 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, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(h) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement; and

(b) "National Bank" means the National Bank of the Republic of Kazakhstan, the central bank of the Borrower and regulator of its banks, established and existing under the laws of the Borrower, and includes any successor thereto.

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 two hundred thirty million Dollars (\$230,000,000), 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) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in the National Bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account:

(i) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$80,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the actions described in Section I of Schedule 3 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program;

(ii) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$155,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the actions described in Section II of Schedule 3 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program.

(e) If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 1999, 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) "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.

(ii) "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 each 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 April 1 and October 1 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 2 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

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

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six (6) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance or the 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 6.02. 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

Cable address:

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:

Telex:

INTBAFRAD
Washington, D.C.

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

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower, or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728.43	-	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum

group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)

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Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures (a) in the territories of any country which is not a member of the Bank, or for goods procured in, or services supplied from, such territories, or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
April 1, 2003	4,565,000
October 1, 2003	4,720,000
April 1, 2004	4,880,000
October 1, 2004	5,040,000
April 1, 2005	5,210,000
October 1, 2005	5,385,000
April 1, 2006	5,565,000
October 1, 2006	5,750,000
April 1, 2007	5,945,000
October 1, 2007	6,145,000
April 1, 2008	6,350,000
October 1, 2008	6,560,000
April 1, 2009	6,780,000
October 1, 2009	7,010,000
April 1, 2010	7,245,000
October 1, 2010	7,485,000
April 1, 2011	7,735,000
October 1, 2011	7,995,000
April 1, 2012	8,265,000
October 1, 2012	8,540,000
April 1, 2013	8,825,000
October 1, 2013	9,120,000
April 1, 2014	9,430,000
October 1, 2014	9,745,000
April 1, 2015	10,070,000
October 1, 2015	10,405,000
April 1, 2016	10,755,000
October 1, 2016	11,115,000
April 1, 2017	11,490,000
October 1, 2017	11,875,000

* 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	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 3

I. Actions Referred to in Section 2.02 (d) (i) of this Agreement

1. The Borrower has furnished to the Bank a report on the functional aspects of all entities supported by the Borrower's state budget and, on the basis of such report, prepared and published an implementation plan, satisfactory to the Bank, providing for the discontinuation of budgetary support to entities identified for privatization or liquidation.

2. The Borrower has furnished to the Bank a report on the completion of the census of all employees of all ministries and agencies of the central executive branch of the Borrower, including an analysis of the census results and an action plan to eliminate the identified inconsistencies, if any, between the census results and the Borrower's civil service payroll.

3. The Borrower has enacted a law on state procurement and issued related implementing regulations, all satisfactory to the Bank.

4. The Borrower has furnished to the Bank a report demonstrating to the satisfaction of the Bank that: (i) the Borrower has eliminated all arrears of the Borrower's pension fund; and (ii) there is no increase of the aggregate amount of non-pension arrears accumulated by the central and local governments of the Borrower and the extra-budgetary funds, as compared with the aggregate level of such arrears as of December 31, 1996.

5. The Borrower has furnished a report to the Bank demonstrating to the satisfaction of the Bank that the Borrower's Ministry of Economy and Trade has prepared a database of all public investment projects proposed by the Borrower's line

ministries and local governments for inclusion in the Borrower's public investment program for the years 1999-2001.

6. The Borrower has issued regulations satisfactory to the Bank establishing a comprehensive methodology and procedures for the determination and regulation of tariffs in the power sector and for communal services, which shall include a schedule for their implementation.

7. The Borrower's state budget for 1998, as enacted, provides, in a manner satisfactory to the Bank, for the revisions of the privileges currently effective in respect of utility tariffs to be supported by the state budget, and for the provision of adequate resources for the housing allowance program.

8. The Borrower has taken all measures as shall be consistent with the recapitalization plan, agreed upon with the Bank, in respect of Bank TuranAlem.

9. The Borrower has furnished a report to the Bank demonstrating to the satisfaction of the Bank that the Borrower has made satisfactory progress in the implementation of the technical assistance program related to the reform policies referred to in the Program.

II. Actions Referred to in Section 2.02 (d) (ii) of this Agreement

1. The Borrower has furnished to the Bank a report demonstrating to the satisfaction of the Bank that the entities identified for discontinuation of budgetary support in the report referred to in paragraph 1 of Section I of this Schedule have been privatized or their liquidation has been initiated.

2. The Borrower has enacted a civil service law and/or regulations satisfactory to the Bank, and furnished to the Bank a report demonstrating to the satisfaction of the Bank that the Borrower has initiated the competitive recruitment of civil servants in accordance with the civil service law.

3. The Borrower has furnished to the Bank a report demonstrating to the satisfaction of the Bank the implementation of the procedures and awards of publicly financed contracts under the law and regulations on state procurement referred to in paragraph 3 of Section I of this Schedule, including a description of problem areas encountered in the course of such implementation and an action plan to overcome such problem areas, if any.

4. The Borrower has furnished to the Bank a report demonstrating to the satisfaction of the Bank that the aggregate amount of all arrears accumulated by the central and local governments of the Borrower and the extra-budgetary funds do not exceed fifty percent (50%) of the aggregate level of such arrears as of December 31, 1997.

5. The Borrower has submitted to the parliament and published in the official gazette of the Borrower an audit report covering all the accounts and expenditures made under the 1997 republican budget.

6. The Borrower has finalized its public investment program (covering the years 1997 through 2001) in accordance with Government of Kazakhstan Resolution No. 528, entitled On the Procedures of Preparing, Implementing and Monitoring of Projects Included in the State Investment Program, dated April 10, 1997, and furnished to the Bank a report demonstrating to the satisfaction of the Bank that all new investment projects to be initiated from January 1, 1999, until December 31, 2001, have been properly evaluated, and that the public investment program is consistent with the associated external borrowing program and the macro-economic framework.

7. The Borrower has furnished a report to the Bank demonstrating to the satisfaction of the Bank that the entity or entities responsible for regulating natural monopolies is setting communal services tariffs in conformity with the regulations referred to in paragraph 6 of Section I of this Schedule.



