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CONFORMED COPY

LOAN NUMBER 7835-KZ

Loan Agreement

(Tax Administration Reform Project)

between

REPUBLIC OF KAZAKHSTAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 12 , 2010

LOAN NUMBER 7835-KZ

LOAN AGREEMENT

Agreement dated July 12, 2010, between REPUBLIC OF KAZAKHSTAN (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of seventeen million Dollars (\$17,000,000), (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the Tax Committee in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The PSC has been established by the Borrower with a composition, resources and terms of reference satisfactory to the Bank.
 - (b) The PMU has been established by the Borrower with a composition, resources and terms of reference satisfactory to the Bank, including a financial management consultant and a procurement consultant.
 - (c) The financial management accounting software has been updated, satisfactory to the Bank, to ensure that project-specific recording and reporting requirements are met.
 - (d) The Operational Manual, satisfactory to the Bank, has been adopted by the Borrower.
 - (e) The PIP, satisfactory to the Bank, has been adopted by the Borrower.
- 4.02. The Effectiveness Deadline is the date one hundred eighty (180) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the Minister of Finance.

5.02. The Borrower's Address is:

Ministry of Finance
11 Pobedy Street
Astana 010000
Republic of Kazakhstan

Telex:	Facsimile:
265126 (FILIN)	7- 7172-717785

5.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Astana, Republic of Kazakhstan, as of the day and year first above written.

REPUBLIC OF KAZAKHSTAN

By /s/ Bolat Zhamishev

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Sebnem Akkaya

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (i) to reform and strengthen the Borrower's tax administration in order to improve the level of voluntary taxpayer compliance with tax regulations; (ii) to enhance effectiveness to fight tax evasion; and (iii) to increase administrative efficiency and reduce the potential for corruption.

The Project consists of the following parts:

Part 1: Institutional Development

Provision of goods, consultants' services, training and Operating Costs for: (a) comprehensive review and redesign of the organizational structure of the taxation administration headquarters and regional offices; (b) reorganization and consolidations of local offices based on rationalization; (c) analysis and reform of the managerial structure of the taxation administration and decision-making modalities; (d) comprehensive review of human resource (HR) policies, civil service legislative framework and development of reformed workforce planning and strategy; (e) review of the Human Resource Management Information System (HRMIS) and its integration with the information technology (IT) system of the Tax Committee and the e-government gateway; (f) upgrade of HRMIS hardware and licenses; (g) development of a training strategy and curriculum for tax administration staff; (h) preparation of a feasibility study for a training institute for the taxation administration; (i) development of technical infrastructure equipments for training institute and distance learning system; and (j) building capacity of the taxation administration through study tour, managerial/HR training, and language training.

Part 2: Operational Development

Provision of goods, consultants' services, training and Operating Costs for: (a) review and redesign of business processes of the taxation administration; (b) development of an integrated database for taxpayers; (c) streamlining of data/information exchange procedures with relevant government bodies; (d) development of a universal filing methodology for the taxation administration; (e) development of a risk-based audit selection methodology; (f) development of analytical methods in market intelligence, non-compliance trends, risk perception of risk, and use of feedback from current audits for the taxation administration; (g) development of a cameral audit information system; (h) development of protocol for information exchange with other agencies and procedures for use of third party information and indirect methods; (i) development of modalities of possible transfer of local taxes to municipalities; (j) improvement in enforced taxation collection and arrears management; (k) design of a modern call center, knowledge database, web-based access to taxpayer account and single-client software; (l) review and reform of the departmental appeal system for taxation administration; (m) development of a specialized tax court; (n) redesign of the VAT registration system in

accordance with the harmonization protocol under the customs union; (o) development of a VAT information exchange system for the customs union; (p) design of an automated VAT refund system; (q) review and reform of the excise taxation procedure; (r) improvement in non-resident taxation, including automated enquiry and economic monitoring; (s) building capacity of the taxation administration through study tour and training for the above activities, including training for tax court judges; (t) provision of business-process reengineering software for the taxation administration; and (u) provision of specialized software and laptops for field audits.

Part 3: IT Infrastructure Development

Provision of goods, consultants' services, training and Operating Costs for: (a) capacity building in organization and management of the IT modernization; (b) development of integrated tax management system; (c) development of integrated data warehouse; (d) development of concept, architecture and applications for data processing centers (DPCs); (e) development of central and regional DPCs, including printing and mailing systems; (f) development of voice and data networks; (g) development of call center; (h) development of video-conferencing facilities; (i) development of risk management system; and (j) development of subsystems for the IT infrastructure.

Part 4: Project Management

Provision of goods, consultants' services, training and Operating Costs of the Tax Committee to support Project coordination, implementation and management.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Borrower shall carry out the Project in accordance with the following institutional and other arrangements:

1. The PSC shall have overall responsibility for Project oversight, policy guidance, as well as overall coordination of the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Operational Manual.
2. The Borrower, through the Tax Committee, shall carry out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Operational Manual and the PIP, and shall not assign, amend, abrogate or waive any provisions of the Operational Manual or the PIP without prior approval of the Bank.
3. At all times during the implementation of the Project, the Borrower shall maintain the PMU and the PSC with a composition, resources, and terms of reference satisfactory to the Bank.
4. The Borrower shall ensure that its annual budget provides for sufficient counterpart co-financing funds for the Tax Committee to cover all contracts included in the approved annual Procurement Plan under the Project.
5. Not later than June 30, 2011, the Borrower shall establish and maintain during the implementation of the Project, an information technology platform in the MoF, as well as the related hardware for the integrated tax management and the data management systems, facilitating information exchange between the Tax Committee and other agencies of the MoF, as satisfactory to the Bank.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

2. Not later than June 30, 2012, the Borrower shall carry out jointly with the Bank, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review). The Midterm Review shall cover, amongst other things:

- (a) progress made in meeting the Project's objective; and
- (b) overall Project performance against Project performance indicators.

3. The Borrower shall prepare at least four (4) weeks prior to the Midterm Review, and furnish to the Bank, a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Shopping
(b)	Direct contracting

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-based selection
(b)	Fixed Budget selection
(c)	Least Cost Selection
(d)	Selection based on Consultants' Qualifications
(e)	Single Source Selection
(f)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g)	Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
Goods, consultants' services, Operating Costs and Training for the Project	17,000,000	100%
TOTAL AMOUNT	<u>\$17,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or
 - (b) for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2014.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 beginning April 15, 2015 through October 15, 2024	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
5. “MoF” means the Ministry of Finance of the Borrower or any successor or successors thereto.
6. “Operating Costs” means incremental operating costs incurred by the Tax Committee on account of Project implementation, management and monitoring, including dissemination of Project related information, office rent and utilities, office and equipment insurance, maintenance and repair, advertisements, travel, security, communication, bank charges, and other miscellaneous costs directly associated with the Project, all based on periodic budgets acceptable to the Bank.
7. “Operational Manual” means the manual, satisfactory to the Bank, to be adopted by the Borrower pursuant to Section 4.01 (d) of the Agreement, setting forth the operational and administrative responsibilities, procedures and rules for the implementation of the Project, including a manual of financial procedures, consistent with the provisions of this Agreement and with the national laws and regulations of the Borrower, as the same may be amended and supplemented from time to time with the Bank’s prior written approval.
8. “PIP” means the Project Implementation Plan to be adopted by the Borrower pursuant to Section 4.01 (e) of this Agreement, and satisfactory to the Bank, setting forth a plan of activities for the Project.
9. “PMU” means the Project Management Unit under the Tax Service Development and Modernization Division of the Tax Committee to be established pursuant to Section 4.01 (b) of this Agreement.

10. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
11. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated December 1, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
12. “PSC” means the Project Steering Committee, to be established by the Borrower pursuant to Section 4.01 (a) of this Agreement, responsible for Project oversight, policy guidance as well as overall coordination of the Project, chaired by the Minister of Finance of the Borrower or his delegated representative, and which shall include key stakeholders from the private sector and from relevant government agencies.
13. “Tax Committee” means the Tax Committee of the Borrower’s MoF established pursuant to the Provision on the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan RK No. 201, April 24, 2008, or any successor or successors thereto.
14. “Training” means Project related study tours, training courses, seminars, workshops and other training activities, not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, travel, per diem costs of trainees and trainers and trainers’ fees.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to

itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (1) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (1) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”