

CONFORMED COPY

LOAN NUMBER 3642 KZ

Loan Agreement

(Technical Assistance Project)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated October 15, 1993

LOAN NUMBER 3642 KZ

LOAN AGREEMENT

AGREEMENT, dated October 15, 1993, between REPUBLIC OF KAZAKHSTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the

modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

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

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

(a) "AMC" means the Borrower's Anti-Monopoly Committee;

(b) "Executing Agencies" means, collectively, the Borrower's Ministries and other Governmental Agencies referred to in the Annex to Schedule 2 to this Agreement;

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

(d) "MOI" means the Borrower's Ministry of Industry;

(e) "MOL" means the Borrower's Ministry of Labor;

(f) "MSP" means the Borrower's Ministry of Social Protection;

(g) "MEB" means the Borrower's Ministry of Ecology and Bioresources;

(h) "MAG" means the Borrower's Ministry of Agriculture;

(i) "MOH" means the Borrower's Ministry of Health;

(j) "MOJ" means Ministry of Justice;

(k) "NAFI" means the Borrower's National Agency for Foreign Investment, established by the Council of Ministers' Decree No. 1073 on December 23, 1992.

(l) "NBRK" means National Bank of the Republic of Kazakhstan, the Borrower's Central Bank;

(m) "PIU" means the Project execution unit referred to in Part E of the Project;

(n) "SCSP" means the Borrower's State Committee for State Property;

(o) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to the letter dated October 27, 1992 signed by the Borrower and the Bank;

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

(q) "MOG" means the Borrower's Ministry of Geology and Mineral Resources Safety; and

(r) "SCS" means the Borrower's State Committee for Statistics.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of thirty eight million dollars (\$38,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

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

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

Section 2.03. The Closing Date shall be June 30, 1996 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 per cent ( $\frac{3}{4}$  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 ( $\frac{1}{2}$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

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

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

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

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

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

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

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Executing Agencies as set forth in the Annex to Schedule 2 to this Agreement, with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.03. The Borrower shall ensure that the PIU is at all times headed by a coordinator with qualifications, terms of reference and experience satisfactory to the Bank, who shall be assisted by qualified staff in adequate numbers and by consultants, acceptable to the Bank, advising on the following matters: procurement, disbursements, privatization, financial sector reform, and general project supervision.

Section 3.04. (a) The Borrower shall:

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

- (iii) afford the Bank a reasonable opportunity to comment on such findings, recommendations and programs or plans of action.

(b) The Borrower undertakes to carry out the programs and plans of action referred to in paragraph (a) of this Section as required to meet the objectives of the Project as set forth in Schedule 2 to this Agreement.

Section 3.05. Regarding the training programs to be carried out under the Project, the Borrower shall:

(a) furnish to the Bank for approval the content of each of such programs as well as the schedule for its implementation;

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

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

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

#### ARTICLE IV

##### Financial Covenants

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

(b) The Borrower shall:

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

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing

such expenditures;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following event is specified as additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that at least two procurement consultants for the PIU, acceptable to the Bank, have been employed by the Borrower.

Section 5.02. 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 Economy 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 Economy  
115 Zheltoksan Street  
Almaty, Kazakhstan

Telex:

251 245 FILIN

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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

REPUBLIC OF KAZAKHSTAN

By /s/ Daulet K. Sembayev  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz  
Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods	8,575,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Consultants' Services	28,925,000	100%
(3) Refunding of Project Preparation Advance	500,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
TOTAL	38,000,000 =====	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory

of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures."

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$3,800,000, may be made for expenditures before that date but after May 15, 1993.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to: (i) provide assistance in the design and development of the Borrower's economic reform policies and programs; (ii) help build the institutional capacity and skills base to carry out these reform policies and programs; and (iii) initiate policy work for the development of key sectors of the Borrower's economy.

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: Privatization and Private Sector Development

1. Provision of technical assistance and training services and equipment and materials: (i) to continue the execution of the Borrower's mass privatization program, and the development of the legal basis and skills required for the privatization of very large or otherwise special enterprises; (ii) develop financial supervision mechanisms for SOEs and arrangements for the restructuring of major insolvent or illiquid SOEs; and (iii) to strengthening the SCSP.

2. Provision of technical assistance and training services and of equipment and materials: (i) to develop and enforce antimonopoly, fair trade, consumer protection and other policies aimed at enhancing competition; and (ii) to strengthen the AMC.

3. Provision of technical assistance and training services: (i) a develop policy, legal and institutional framework for the promotion and regulation of foreign investment; (ii) the development of the oil and mining sectors; and (iii) strengthen NAFI.

#### Part B: Financial Sector Development

Provision of technical assistance services, training and equipment and materials required to support the reform and strengthening of the Borrower's financial sector including: (1) developing a payment system; (2) developing new auditing and accounting systems and procedures: (i) strengthening the skills of accountants and auditors; and (ii) carrying out financial, institutional and strategy studies of the Borrower's ten largest banks; (3) carrying out studies on certain financial areas or institutions, including a feasibility study for a development bank, and for alternative arrangements to address problem loans, such as the establishment of a rehabilitation fund or bank.

#### Part C: Social Sector and Human Resource Development

Provision of technical assistance and training services and equipment and materials to support the development and execution of social, health and human resource policies and strengthening of sector institutions including: (1) designing and carrying out programs to provide: (i) unemployment relief; and (ii) social protection targeted to the most vulnerable groups of society and poverty monitoring; (2) designing and carrying out programs and policies in the areas of health care reform and financing, and distribution and retailing of pharmaceuticals; and (3) carrying out training programs to upgrade job skills in areas such as banking,



accounting, public sector service and enterprise management.

Part D: Institutional Support

Provision of technical assistance and training services and provision of equipment and materials to develop policies and investment programs in key sectors of the Borrower's economy and to provide institutional support to the economic reform program including: (1) ensuring the development of an adequate legal framework for the reform program which is modern and internally consistent, developing a data base to allow easy access to existing legislation, regulatory instruments and court decisions affecting business and training legal professionals of public agencies, the judiciary and private sector; (2) continuing the development of specific legislation for the financial sector and its institutions and assisting in the enforcement of such legislation; and (3) supporting the MEB: (i) in establishing a clear and operational institutional, policy and legal framework for the protection of that environment; (ii) advising on question arising from individual privatization and transaction on the privatization program in general; and (iii) conducting pilot environmental reviews for large enterprises in the course of their privatization.

Part E: Project Administration

Establishment and operation of a project implementation unit with functions and responsibilities satisfactory to the Bank in MOE including the overall coordination and administration of the activities to be carried out under the Project and the procurement of goods and services required thereof.

\* \* \*

The Project is expected to be completed by December 31, 1995.

ANNEX TO SCHEDULE 2

Executing Agencies Responsible for the  
carrying out of the Project

Part of the Project	Agency
Part A (1)	MOE/SCSP
Part A (2)	MOE/AMC
Part A (3) (i) and (iii)	MOE/NAFI
Part A (3) (ii)	MOI
Part B	NBRK
Part C (1) (i)	MOL
Part C (1) (ii)	MSP/MOL/SCS
Part C (2)	MOH
Part C (3)	MOE/NBRK/MOG
Part D (1)	MOE/MOJ
Part D (2)	MEB
Part E	MOE/PIU

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15	
beginning March 15, 1999	
through March 15, 2010	1,585,000
On September 15, 2010	1,545,000

