

CONFORMED COPY

LOAN NUMBER 4609 KZ

Loan Agreement

(Syr Darya Control and Northern Aral Sea Phase I Project)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 22, 2001

LOAN NUMBER 4609 KZ

LOAN AGREEMENT

AGREEMENT, dated October 22, 2001, 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 (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 October 6, 1999, (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) "BCG" means the Basin Consultative Group to be established by the

Borrower in accordance with paragraph 6 of Schedule 5 to this Agreement;

(b) "CWR" means Committee for Water Resources under the Ministry of Natural Resources and Environmental Protection of the Borrower which will carry out the Project;

(c) "Eligible Categories" means categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) "Eligible Expenditures" means the expenditures for goods and works referred to in Section 2.02 of this Agreement;

(e) "EMP" means the Environmental Management Plan, satisfactory to the Bank, prepared and adopted by the Borrower on February 14, 2001, describing the environmental mitigation, monitoring, and institutional measures under the Project referred to in Schedule 5 to this Agreement;

(f) "ICC" means the Inter-ministerial Coordination Committee to be maintained by the Borrower in accordance with paragraph 4 of Schedule 5 to this Agreement;

(g) "IPOE" means the Independent Panel of Experts on Chardara Dam to be maintained by the Borrower in accordance with paragraph 7 of Schedule 5 to this Agreement;

(h) "MEMR" means Ministry of Energy and Mineral Resources of the Borrower or any successor thereto;

(i) "MET" means Ministry of Economy and Trade of the Borrower or any successor thereto;

(j) "MNREP" means the Ministry of Natural Resources and Environmental Protection of the Borrower or any successor thereto;

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

(l) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(m) "PMU" means Project Management Unit within CWR which will have overall responsibility for Project preparation, implementation and coordination;

(n) "PSC" means the Project Steering Committee to be established by the Borrower in accordance with paragraph 5 of Schedule 5 to this Agreement;

(o) "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 February 1, 2000, and on behalf of the Borrower on February 3, 2000; and

(p) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

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

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 sixty-four million five hundred thousand Dollars (\$64,500,000).

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 and works required for the Project and to be financed out of the proceeds of the Loan and in respect of interest and other charges on the Loan and in respect of fee referred to in Section 2.04 of this Agreement.

(b) 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 February 28, 2007, 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 through CWR, all 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 and, without any limitation or restriction upon any of its other obligations under the Loan Agreement.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project through CWR in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and works 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 maintain or cause to be maintained a financial management system, including records and accounts and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations and expenditures related to the Project.

(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 (6) 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 Project Management Reports or 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 (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 Project Management Reports 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 July 1, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, 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 Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. 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, namely, that the Borrower shall have appointed the auditors referred to in Section 4.01 (b) (i) of this Agreement.

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

For the Borrower:

Ministry of Finance
33 Pobedy 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:

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

REPUBLIC OF KAZAKHSTAN

By /s/ Oraz Jandosov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes F. Linn

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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 Dollars)	% of Expenditures to be Financed
(1) Civil works	57,955,000	84%
(2) Goods	100,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 84% of local expenditures for other items pro- cured locally
(3) Refunding of Project Preparation Advance	1,800,000	Amounts due Pursuant to Section 2.02 (c) of this Agreement
(4) Fee	645,000	Amount due Pursuant to Section 2.04 of this Agreement
(5) Unallocated	4,000,000	
TOTAL	64,500,000	

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 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 for goods supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for 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 \$100,000 equivalent each; and (b) works, under contracts costing less than \$200,000 equivalent each, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in United States Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that a Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the said Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of a 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) 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 (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the said Special Account (or, if the Bank shall so request, refund to the

Bank) an amount equal to the amount of such payment. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports

1. For the purposes of this Annex:

The term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$750,000 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 equal or exceed the equivalent of US\$10,000,000.

2. Withdrawals of a Special Account's Authorized Allocation and subsequent withdrawals to replenish the said Special Account shall be made as follows:

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

(b) For replenishment of the said Special Account, the Borrower shall furnish to the Bank requests for deposit into the said Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 said 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 said Special Account for Eligible Expenditures. Each such deposit into the said Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

3. The Bank shall not be required to make further deposits into a Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Loan allocated to said Categories, shall equal the equivalent of twice the amount of the said Special Account's Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to said 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 said Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into a Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the said Special Account's Eligible Categories.
2. Each application for withdrawal from the Loan Account for deposit into a Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the said Special Account, shall not exceed the equivalent of \$1,500,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to secure the existence of the Northern Aral Sea (NAS) and improve the carrying capacity of Syr Darya river to improve the ecological and environmental conditions and biodiversity in the delta and around NAS which will lead to improved human and animal health; and (ii) sustain and increase agriculture (including livestock) and fish production in the Syr Darya basin.

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: Rehabilitation of Northern Aral Sea

Construction of a dike across a channel connecting NAS and Larger Southern Aral Sea (LAS) and spillway.

Part B: Improving the Hydraulic Control of the Syr Darya

Rehabilitation and construction of hydraulic structures including: (i) reconstruction of Aklak weir (and related works); (ii) reconstruction of the Aitek and Karaozek water control structures and related works; (iii) repairs of Kazalinsk headworks and Kzylorda barrage; and (iv) rehabilitation and construction of low height dikes along the river and river channel straitening.

Part C: Rehabilitation of Chardarah Dam

Rehabilitation of Chardara Dam works including the rehabilitation of the Kzylkum irrigation outlet, the drainage system, spillway gates, and repairs of spillway outlets, chutes, stilling basins and related works, and installation of dam instrumentation.

Part D: Aquatic Resources Restoration and Fisheries Development

(i) The preparation and implementation of a fisheries development plan; and (ii) rehabilitation of existing hatchery facilities at Kamyshbash and at Tastek.

Part E: Monitoring and Evaluation

Monitoring and evaluation of project implementation progress, its impact, and implementation of the environmental management plan through the provision of services, training and acquisition of vehicles and equipment.

Part F: Project Management and Institutional Development

(i) Support the operation of PMU, including overall Project management, procurement, accounting, auditing, and supervision of construction, and monitoring, evaluation and implementation of environmental management plan; and (ii) strengthening the capacity of CWR in Project management through the provision of technical assistance and training.

* * *

The Project is expected to be completed by August 31, 2006.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
February 15, 2007	1,355,000
August 15, 2007	1,395,000
February 15, 2008	1,440,000
August 15, 2008	1,480,000
February 15, 2009	1,525,000
August 15, 2009	1,570,000
February 15, 2010	1,620,000
August 15, 2010	1,665,000
February 15, 2011	1,715,000
August 15, 2011	1,770,000
February 15, 2012	1,820,000
August 15, 2012	1,875,000
February 15, 2013	1,935,000
August 15, 2013	1,990,000
February 15, 2014	2,050,000
August 15, 2014	2,110,000
February 15, 2015	2,175,000
August 15, 2015	2,240,000
February 15, 2016	2,310,000
August 15, 2016	2,375,000
February 15, 2017	2,450,000
August 15, 2017	2,520,000
February 15, 2018	2,600,000
August 15, 2018	2,675,000
February 15, 2019	2,755,000
August 15, 2019	2,840,000
February 15, 2020	2,925,000
August 15, 2020	3,010,000
February 15, 2021	3,100,000
August 15, 2021	3,210,000

* 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

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 Section of this Schedule.

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.

(a) Prequalification

Bidders for works estimated to cost more than \$10,000,000 shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$12,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 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.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 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 for works under Part C.1 of this Section estimated to cost \$200,000 equivalent or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contracts for goods and works to be procured in accordance with the procedures referred to in Part C above the following procedures shall apply:

(i) prior to the selection of any supplier/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 execution of any contract procured under direct contracting or 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), 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.

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, on or about January 31 of each year, 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;

(c) review with the Bank, by March 31 of each year or such later date as the Bank shall request, the report referred to in subparagraph (b) 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;

(d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31 and July 31 of each year, a semi-annual report on the Project implementation;

(e) (i) prepare, not later than July 31, 2004, jointly with the Bank, a midterm review report of the progress made in carrying out the Project. The midterm review report shall include the progress made in meeting the objectives of the Project; and (ii) carry out, not later than one (1) month after the completion of the midterm review, the recommendations of the midterm review as agreed with the Bank and set out in an action plan for the Project satisfactory to the Bank; and

(f) prepare, under terms of reference satisfactory to the Bank and furnish to the Bank Progress Reports to be submitted not later than January 31, April 30, July 31 and October 31 of each year for the preceding three (3) months in an appropriate format to ICC, PSC, and the Bank. The quarterly report would cover the progress and expected completion date for civil works, equipment and good contracts, progress on institutional components, training and studies, and activities of the PMU; monitoring and evaluation of the EMP implementation and Project impact, procurement and financial consultants.

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. The Borrower shall, until completion of the Project maintain PMU for Project management, implementation and coordination of the Project related activities with staff whose qualification and terms of reference shall be satisfactory to the Bank.

4. The Borrower shall, until completion of the Project, maintain ICC established by

the Borrower for the purposes of coordinating the Project activities.

5. The Borrower shall, not later than December 31, 2001, establish PSC. The PSC's main task shall be: (i) to keep the local population informed of Project activities and progress, including but not limited to Project studies, design, implementation; monitoring and evaluation results, activities and programs proposed or undertaken by donors; funding of these activities etc.; and (ii) to ensure that the Project achieves its environmental and social development outcomes.

6. The Borrower shall, not later than June 30, 2002, establish BCG consisting of major Project stakeholders under terms of reference acceptable to the Bank. The BCG's main task shall be to ensure effective public participation in the water allocation and management process in the Kazakh part of the basin.

7. For overseeing of implementation of dam safety measures at Chardara dam IPOE with composition and terms of reference acceptable to the Bank consisting of national and international experts shall be maintained which shall have as its main task to review the design and oversee the implementation of mitigating measures.

8. The Borrower shall ensure by all necessary measures the implementation of the Project's EMP prepared as part of the environmental assessment studies. Towards that end the Borrower shall ensure that: (i) recommended mitigation measures are incorporated in the design of Project works; (ii) such measures are implemented during the construction period and subsequent operation of the Project facilities; (iii) PMU is staffed with appropriate expertise to oversee the implementation of the EMP consisting of at least two (2) ecologists, and one (1) hydrologist whose qualifications and experience shall be satisfactory to the Bank; and (iv) independent consultants whose qualifications and experience shall be satisfactory to the Bank are recruited and maintained during the Project period for monitoring the implementation of the EMP.

9. The Borrower shall, not later than March 31, 2002, recruit and thereafter maintain consultants whose qualification and experience shall be satisfactory to the Bank, who will be responsible for monitoring of the EMP implementation and monitoring and evaluation of the Project's impact.

10. The Borrower shall, not later than September 30, 2001, recruit and thereafter maintain consultants whose qualification and experience shall be satisfactory to the Bank, who will be responsible for design and construction supervision.

