

CONFORMED COPY

LOAN NUMBER 3896 KZ

Loan Agreement

(Social Protection Project)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 12, 1995

LOAN NUMBER 3896 KZ

LOAN AGREEMENT

AGREEMENT, dated June 12, 1995, 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; 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" 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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (c) 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) **Annual Work Program** means a year-specific technical program and budget adopted by the Borrower, Participating Regions and Participating Cities in accordance with Section 3.02 (a) (ii) of this Agreement and Part B of Schedule 6 to this Agreement;

(b) **Employment Service** means the Office of Employment Service in the MOL's Department of Employment;

(c) **MOF** means the Borrower's Ministry of Finance or any successor thereto;

(d) **MOL** means the Borrower's Ministry of Labor or any successor thereto;

(e) **Participating Cities** and **Participating City** mean collectively the cities and individually each city, namely, Shymkent, Kentau, Lenger, Pavlodar and Aksu, within the Participating Regions;

(f) **Participating Regions** and **Participating Region** mean collectively the Borrower's South Kazakhstan Region and Pavlodar Region and individually any one of the said Regions;

(g) **PCC** means the Borrower's project coordination council referred to in paragraph 3 of Schedule 5 to this Agreement;

(h) **PCU** means the Borrower's project coordination unit referred to in paragraph 3 of Schedule 5 to this Agreement;

(i) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated October 21, 1994, and November 9, 1994 between the Bank and the Borrower; and

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

(k) "Subsidiary Agreements" and "Subsidiary Agreement" mean collectively the agreements and individually each agreement entered or to be entered into among the Borrower, a Participating Region and the Participating Cities within that Participating Region, in accordance with Section 3.02 (a) (i) and Part A of Schedule 6 to this Agreement.

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 forty one million one hundred thousand Dollars (\$41,100,000), 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 may, for the purposes of the Project, open and maintain in Dollars a special deposit account in the National Bank of the Republic of Kazakhstan 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 7 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 2002, 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 (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) "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 semi-annually on February 1 and August 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 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: (i) carry out Parts A and C, and Part B (development of a national strategy for managing social asset divestiture and efficient management of essential services) of the Project with due diligence and efficiency and in conformity with appropriate financial, economic and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and (ii) cause the Participating Regions and Participating Cities to carry out their activities under Part B of the Project in accordance with the terms of this Agreement and the Subsidiary Agreements.

Section 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:

- (a) for the purpose of carrying out Part B of the

Project:

- (i) enter into a separate subsidiary agreement with each Participating Region and all the Participating Cities within that Participating Region in accordance with, and on the terms and conditions satisfactory to the Bank, including those set forth in Part A of Schedule 6 to this Agreement;
- (ii) adopt, and ensure that the Participating Regions and Participating Cities adopt the respective Annual Work Programs in accordance with the procedures and on terms and conditions satisfactory to the Bank, including those set forth in Part B of Schedule 6 to this Agreement;
- (iii) make available to each Participating Region and Participating City the funds, facilities, services, and other resources required and appropriate under the respective Annual Work Program with such a Participating Region and Participating City;
- (iv) exercise its rights and obligations under the Subsidiary Agreement in such a manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, not to amend, abrogate or waive any such agreement or any provision thereof; and
- (v) cause each Participating Region and Participating City to perform its obligations in accordance with the provisions of the Subsidiary Agreement; and

(b) carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare, on the basis of guidelines satisfactory 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 designed to ensure the continued achievement of the Project's objectives;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

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 Parts A and C, and Part B (development of a national strategy for managing social asset divestiture and efficient management of essential services) of the Project of the departments or agencies of the Borrower responsible for carrying out the said Parts of 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 satisfactory 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 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 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) The Borrower shall cause the Participating Regions and the Participating Cities to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of such Participating Regions and Participating Cities in respect of their components under Part B of the Project.

(b) The Borrower shall cause the Participating Regions and the Participating Cities to:

- (i) have the records and accounts referred to in paragraph (a) of this Section for its Project

Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory 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 such records, accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that any Participating Region or Participating City therein shall have failed to perform any of its respective obligations under its Subsidiary Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur and continue for a period of sixty (60) days after notices thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) that the Borrower has solicited, received and evaluated, in accordance with the provisions of Section II of Schedule 4 to this Agreement, proposals from consultants with respect to all consultants' services to be performed under the Project, and has furnished to the Bank its recommendations for action and the Borrower's evaluation reports of such proposals; and

(b) that the Subsidiary Agreements have been executed on behalf of the Borrower, and each of the Participating Regions and Participating Cities.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Subsidiary Agreements have been duly authorized and approved by and are valid and binding upon the respective parties thereto in accordance with their respective terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
97 Ablai Khan Avenue
Almaty, 480091
Republic of Kazakhstan

Telex:

25-12-25
WIZA SU

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:

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

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/ Tuleitai Suleimenov
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yukon Huang
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:

Amount of the Loan Allocated (Expressed in	% of Expenditures
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Category	Dollar Equivalent)	to be Financed
(1) Civil Works:)	
)	
(a) for Part A.2 of the Project	505,000)	90%
)	
(b) for Part B.1 of the Project	2,755,000)	
)	
(2) Goods:)	
)	
)	100% of foreign expenditures; 100% of local expenditures (ex-factory cost) and 75% of local expen- ditures for items procured locally
(a) for Parts A.1, A.3, other A.4, B.2 and C of the Project	945,000)	
)	
(b) for Part A.2 of the Project	7,400,000)	
)	
(c) for Part B.1 of the Project	12,600,000)	
)	

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Consultants Services:)	
)	
(a) for Parts A.1, A.3, A.4, B.2 and C of the Project	4,615,000)	
)	100%
(b) for Part A.2 of the Project	375,000)	
)	
(4) Training:)	
)	
(a) for Parts A.1, A.3, A.4, B.2 and C of the Project	800,000)	
)	100%
(b) for Part A.2 of the Project	100,000)	
)	
(5) Incremental Recurrent Costs:		
(a) for Part A.2 of the Project	170,000	50%
(b) (i) for Part B.1(a) of the Project (South Kazakhstan Region)	4,100,000	90% of expenditures incurred up to and including December 31, 1996; 75% of expenditures incurred between January 1, 1997 and December 31, 1997;

Amount of the

Category	Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
		45% of expenditures incurred between January 1, 1998 and December 31, 1998; and 25 % of expenditures incurred after December 31, 1998
(ii) for Part B.1(b) of the Project (Pavlodar Region)	3,050,000	90% of expenditures incurred up to and including December 31, 1996; 75% of expenditures incurred between January 1, 1997 and December 31, 1997; 45% of expenditures incurred between January 1, 1998 and December 31, 1998; and 25 % of expenditures incurred after December 31, 1998
(c) for Part C of the Project	190,000	50%
(6) Refunding of Project Prepara- tion Advance	500,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	2,995,000	
TOTAL	41,100,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term Incremental Recurrent Costs means, in connection with costs incurred under: (i) Part A of the Project, the costs of office and training supplies, maintenance of office equipment and communications, including international telephone calls and facsimile transmissions; (ii) Part B of the Project, costs of salaries, communications, utilities, food, laundry and other consumables for divested kindergartens and health facilities; and (iii) Part C of the Project, the costs of office supplies, maintenance of office equipment and communications, including international telephone calls and facsimile transmissions.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of four million Dollars (\$4,000,000), may, subject to the provisions of sub-paragraphs (b), (c) and (d) hereof, be made in respect of Categories (1) and (5) (b) of this Schedule on account of payments made for expenditures before that date but after January 1, 1995;

(b) made in respect of Category 5 (b) (i) of this Schedule, unless: (i) the Annual Work Plan for the respective year has been approved by the MOF, the South Kazakhstan Region and the cities of Shimkent, Kentau and Lenger, in accordance with the procedures and on terms and conditions set forth in Part B of Schedule 6 to this Agreement; (ii) the budgets of the Borrower, the South Kazakhstan Region and the cities of Shimkent, Kentau and Lenger contain separate line items for contributions to be made by the Borrower under the Annual Work Program for the respective year; and (iii) the cities of Shimkent, Kentau and Lenger have deposited their financial contributions under the respective Annual Work Programs to such cities' respective Project Accounts;

(c) made in respect of Category 5 (b) (ii) of this Schedule, unless: (i) the Annual Work Plan for the respective year has been approved by the MOF, the Pavlodar Region and the cities of Pavlodar and Aksu, in accordance with the procedures and on terms and conditions set forth in Part B of Schedule 6 to this Agreement; (ii) the budgets of the Borrower, the Pavlodar Region and the cities of Pavlodar and Aksu contain separate line items for contributions to be made by the Borrower under the Annual Work Program for the respective year; and (iii) the cities of Pavlodar and Aksu have deposited their financial contributions under the respective Annual Work Programs to such cities' respective Project Accounts; and

(d) made in respect of Categories (1) (a), (2) (b), (3) (b), (4) (b) and (5) (a) of this Schedule, unless the Borrower has enacted legislation providing for satisfactory scale of and entitlement to unemployment benefits, with the minimum level of such benefits being equal to at least three (3) times the base numerate established pursuant to Presidential Decree No. 2120, dated March 15, 1995, or any other law establishing said base numerate.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for goods, works and services under all contracts not subject to prior review pursuant to Part D.2 of Section I of Schedule 4 to this Agreement, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (a) develop the capacity of the Employment Service to manage the expected increase in the number of registered unemployed and attendant benefit claims arising from restructuring and privatization of enterprises; and (b) ensure continued delivery of essential social services, by piloting mechanisms for orderly divestiture of kindergartens and health facilities from enterprises, and efficient management by local authorities of a unified system of essential social services.

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: Employment Services

1. Institutional Strengthening

Strengthening the skills and capacity of senior Employment Service managers in policy development, operational planning and financial management through the provision of goods, consulting services and training.

2. Unemployment Benefits and Service Delivery

Improving the operational effectiveness of the Employment Service, through upgrading and re-equipping of Employment Service offices, preparation of new procedures for basic office functions, and development of guidelines for specialized Employment Service functions through the provision of civil works, goods, consulting services, training and incremental recurrent costs.

3. Staff Training and Development

Strengthening the organizational capacity of the Employment Service at operational and supervisory levels to respond to increasing demand from clients through provision of goods, consulting services and training.

4. Pilot Programs for Training and Retraining of the Unemployed

Reorienting the work of MOL training centers towards demand-driven training and increased use of external training providers through the provision of goods, consulting services and training.

Part B: Social Services

1. Social Services Support

Upgrading and rehabilitating selected kindergartens and health facilities in the Project Cities in (a) the South Kazakhstan Region and (b) the Pavlodar Region through the provision of civil works, goods, including drugs and other related medical supplies, and incremental recurrent costs.

2. Institutional Support

Provision of assistance in financial management systems, health care and kindergarten management, specialized procurement, social impact monitoring, and development of a national strategy for managing social asset divestiture and efficient management of essential social services by authorities of the Participating Regions and Participating Cities through provision of goods, consulting services and training.

Part C: Project Coordinating Unit

Strengthening the Borrower's project implementation capabilities through provision to the PCU of goods, consulting services, training and incremental recurrent costs.

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning February 1, 2001 through February 1, 2012	1,715,000

And on August 1, 2012

1,655,000

* 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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this part B. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. Limited International Bidding

Except as otherwise provided in paragraphs 2, 3, and 4 hereof, goods estimated to cost \$300,000 equivalent or less per contract and \$2,800,000 equivalent or less in the aggregate, which the Bank agrees can only be purchased from a limited number of suppliers, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Except as otherwise provided in paragraphs 3 and 4 hereof, goods estimated to cost \$300,000 equivalent or less per contract and \$1,100,000 equivalent or less in the aggregate, 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

Except as otherwise provided in paragraph 4 hereof, goods which are locally available, off-the-shelf items of small value and standard specifications, estimated to cost \$50,000 equivalent or less per contract and \$700,000 equivalent or less in the aggregate, may be procured under contracts awarded on the basis of at least three price quotations obtained from qualified suppliers in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement from UN Agencies

Drugs and other related medical supplies may be procured from UNICEF and other UN Agencies in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Procurement of Small Works

Works (including repairs to existing facilities and installation of equipment), estimated to cost \$50,000 equivalent or less per contract, and not to exceed \$4,000,000 in the aggregate, shall be procured under lumpsum, fixed price contracts awarded on the basis of quotations obtained from three 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 successfully complete the contract.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations for bidding, a 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

With respect to: (a) each contract for goods, estimated to cost more than \$300,000 equivalent, and (b) the first two contracts for works (or such other number of said contracts as may be required by the Bank), the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the Guidelines for the Use of Consultants by The World Bank Borrowers and by The World Bank as Executing Agency published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) develop, adopt and maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the Project's objectives;

(b) (i) by June 30, 1997, undertake a mid-term review of the implementation of the Project in consultation with and in a manner satisfactory to the Bank; (ii) prepare and, by September 30, 1997, furnish to the Bank, a report regarding the results of the mid-term review, including the progress achieved in the implementation of the Project during the period preceding the date of said report and measures recommended to ensure the efficient carrying out of the Project and the achievement of the Project's objectives during the period following such date; (iii) at the request of the Bank, review with the Bank the said report; and (iv) thereafter, take all

measures required to ensure the efficient completion of the Project and the achievement of the Project's objectives, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and

(c) by December 31, 1995, design a comprehensive national strategy, satisfactory to the Bank, for the divestiture of social assets of state-owned or state-controlled enterprises, and develop, as a part of such strategy, a set of principles covering access to essential social services.

2. The Borrower shall ensure that:

(a) by June 30, 1996, policies related to eligibility of unemployed for benefits beyond the existing six-month period have been adopted in a manner satisfactory to the Bank; alternative support and training options have been defined for school graduates and other new or returning entrants into the labor market; and the procedures for applying for unemployment benefits have been streamlined in a manner satisfactory to the Bank and responsibility for approval of unemployment benefits has been delegated from the existing commissions to the staff of the Employment Service;

(b) by June 30, 1996, the Employment Service has developed guidelines to modify its overall staffing distribution in a manner satisfactory to the Bank; the current payment structure for participants in the temporary employment schemes (TES) has been changed in accordance with the revised structure of the unemployment benefits and payments for TES are above the minimum level of unemployment benefits; training advisory groups (TAGs) are set up in each Participating Region, and the Employment Service has developed a comprehensive strategy to contract training services to private and public institutions capable of delivering job-oriented training courses;

(c) during each calendar year of Project implementation, each department, agency and administrative unit of the Borrower involved in Project implementation has prepared quarterly progress reports which shall then be made available to the Bank through the PCU no more than 30 days after the end of each quarter; and

(d) by February 15 of each calendar year of Project implementation, each department, agency and administrative unit of the Borrower involved in Project implementation has prepared annual implementation progress reports which shall then be made available to the Bank through the PCU.

3. The Borrower shall establish and, until the completion of the Project, maintain a project coordination council (PCC) and a project coordination unit (PCU) and shall ensure that the PCC and PCU function at all times in a manner and with staffing, funds, facilities and other resources satisfactory to the Bank.

4. The Borrower agrees that: (a) the operations of the PCU shall be overseen by the PCC, which shall be chaired by a member of the senior management of the MOF; (b) the PCC shall be composed of representatives of: (i) the MOF, MOL, the Borrower's Ministry of Economy, Ministry of Social Protection, Ministry of Health, Ministry of Education, State Committee on Management of State Property, State Committee on Privatization, and Ministry of Justice; (ii) the Participating Regions; and (iii) the Participating Cities; and (c) the PCU shall be headed by a director from the MOF and shall be responsible for the overall coordination of the Project activities, including accounting, auditing, procurement, disbursement, consolidation of draft Annual Work Programs and budgets, and preparation of progress reports and annual reports in respect of or related to the Project.

5. The Borrower shall carry out Part A of the Project through the Employment Service.

6. The Borrower shall ensure that: (a) each Participating Region and each Participating City have two component coordinators in the PCC, each with the overall responsibility for preparation of Annual Work Programs; (b) each Project City component coordinator is responsible for the satisfactory and timely implementation of Annual Work Programs by city health and education authorities, the satisfactory maintenance of project accounts, and proper and timely preparation of quarterly and annual progress reports; (c) Participating Regions' component coordinators are responsible for the inclusion of funds required for the implementation of their components under the Project in the budgets of such Participating Region, and for reviewing and consolidating the Annual Work Programs prepared by the Participating Cities, and submitting the annual and quarterly progress reports to the PCU.

SCHEDULE 6

Procedures and Terms and Conditions of the Subsidiary Agreements

A. The Subsidiary Agreements

1. The Subsidiary Agreements shall be entered into by the Borrower, represented by the MOF, each Participating Region, represented by its Deputy Head of Administration, and each Participating City, represented by its Deputy Head of Administration. The Borrower shall, on terms and conditions satisfactory to the Bank, make available an amount of thirty one million eight hundred thirty thousand Dollars (\$31,830,000) equivalent from the proceeds of the Loan to the Participating Regions and Participating Cities to enable them to carry out their respective portions of Part B of the Project.

2. The Subsidiary Agreements shall consist of the general terms and conditions, including the terms and conditions set forth in paragraph 3 of Part A of this Schedule 6, and refer to the Annual Work Programs to be adopted by the Borrower, the Participating Regions and Participating Cities in accordance with the procedures set forth in Part B of this Schedule 6.

3. The Subsidiary Agreements shall require the Participating Regions and Participating Cities to, inter alia:

(a) carry out the respective Annual Work Program with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with sound financial, economic and administrative practices;

(b) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial conditions, including separate records and accounts adequate to reflect all resources and expenditures under the respective Annual Work Program;

(c) have their records, accounts, and financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory to the Borrower, and furnish the Borrower not later than six (6) months after the end of such year so audited, certified copies of their financial statements for the year so audited, and the report of such audit by such auditors of such scope and detail as the Borrower shall reasonably request;

(d) procure the goods, works, and services to be procured under the respective Annual Work Program and to be financed

under the Loan, in accordance with the provisions of Schedule 4 to this Agreement and to use such goods, works and services exclusively in the carrying out of the respective Annual Work Programs;

(e) permit the Borrower, by itself or jointly with the representatives of the Bank, if the Bank shall so request, to inspect the goods, works and services received under the respective Annual Work Programs, and any relevant records and documents;

(f) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice;

(g) maintain in their budgets separate line items for expenditures related to the Annual Work Programs approved by the MOF; contribute, from their own resources, funds required for and specified in the respective Annual Work Programs, and to deposit such funds in a timely manner in the accounts to be established by each Participating City in local branches of the national banks of the Republic of Kazakhstan;

(h) give the Borrower the right to suspend or terminate the right of the Participating Region or Participating City to use the proceeds of the Loan upon the failure by such Participating Regions or Participating Cities to perform their respective obligations under the Subsidiary Agreement; and

(i) within forty five (45) days following the conclusion of each fiscal year covered by the Annual Work Program, submit to the Borrower, in a manner and detail satisfactory to the Borrower, the annual implementation report of the Annual Work Program.

B. Annual Work Programs

1. The following procedures shall apply and be followed in connection with Annual Work Programs to be prepared for each calendar year commencing in 1995 during which the Participating Regions and Participating Cities shall participate in carrying out Part B of the Project:

(a) by September 15 of each year, the Participating Cities shall prepare proposed Annual Work Programs for the next year which shall contain the terms and conditions set forth in paragraph 2 of Part B of this Schedule 6 and shall submit such proposed Annual Work Programs to the respective Participating Regions;

(b) by September 30 of each year, the Participating Cities and Participating Regions shall agree on the terms and conditions of the proposed Annual Work Program for the next year and shall submit such proposed Annual Work Programs to the Borrower, represented by the PCU;

(c) by October 31 of each year, the PCU shall consolidate the proposed Annual Work Programs and shall submit them to the MOF and the Bank for review and comment; and

(d) by November 30 of each year, the Borrower, following its review of the proposed Annual Work Programs and upon the Bank's review of and no objection to such proposed Annual Work Programs, and taking into account the performance of the Participating Regions and Participating Cities under the preceding Annual Work Programs, shall formally adopt the Annual Work Programs and shall ensure that the Participating Regions and Participating Cities formally adopt such Annual Work Programs.

2. Each Annual Work Program shall contain such terms and conditions as shall be necessary and appropriate for the

implementation of Part B of the Project by the Borrower, Participating Regions and Participating Cities, and shall include terms and conditions regarding, inter alia:

- (a) objectives of the Annual Work Program;
- (b) activities to be performed under the Annual Work Program to reach such objectives;
- (c) assets (numbers and description) to be divested, rehabilitation programs, investment and supplies required, service norms and standards to be followed, and cost recovery measures and targets under the Annual Work Program;
- (d) budget, including an estimate of the costs necessary to carry out the Annual Work Program, broken down, for each social facility to be divested, by incremental recurrent costs, non-incremental recurrent costs, rehabilitation and other investment costs, equipment and supplies costs;
- (e) financing plan for the activities to be performed under the Annual Work Program, which describe, inter alia, funds to be contributed by the Participating Regions and Participating Cities, funds to be provided by the Borrower, including those provided under the Loan, and funds to be obtained from user fees; and
- (f) criteria for the selection and numbers of staff to be trained through study tours and fellowships, and estimated costs of such activities.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories", subject to the clarification below, means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; for the avoidance of doubt, it is clarified that the term eligible Categories will be deemed to include the categories specified above only if and to the extent the conditions of disbursements, if any, in respect thereof provided in paragraphs 3 (b), (c) and (d) of Schedule 1 to this Agreement have been fulfilled;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to one million Dollars (\$1,000,000), to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to two hundred thousand Dollars (\$200,000) until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of five million Dollars (\$5,000,000).

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

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

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

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

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

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

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

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount

of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

