

CONFORMED COPY

CREDIT NUMBER 2978 AZ

Development Credit Agreement
(Structural Adjustment Credit)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1997

CREDIT NUMBER 2978 AZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1997, between AZERBAIJAN REPUBLIC (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated June 24, 1997, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

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

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

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

(c) Section 4.01 is modified to read:

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

(d) Section 5.01 is modified to read:

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

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

(f) Section 9.06 (c) is modified to read:

"(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(g) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) "CAR" means the capital adequacy ratio which is the ratio of capital and risk weighted assets, including their risk weights, calculated under International Accounting Standards and in accordance with the Association's accepted risk weights;

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

(c) "International Accounting Standards" means international accounting standards published by the International Accounting Standards Commission;

(d) "Fiscal Year" means the fiscal year of the Borrower commencing January 1 and ending December 31 of each year;

(e) "NBA" means the National Bank of Azerbaijan Republic; and

(f) "SPC" means the State Property Committee of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and

conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifty-two million Special Drawing Rights (SDR 52,000,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

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

(d) No withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR fifty-two million (SDR 52,000,000) unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

- (i) with the progress achieved by the Borrower in the carrying out of Program;
- (ii) that the actions described in Schedule 2 to this Agreement have been taken; and
- (iii) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program.

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

Section 2.03. The Closing Date shall be January 31, 1999, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15 commencing October 15, 2007, and ending April 15, 2032. Each installment to and including the installment payable on April 15, 2017, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

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

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

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

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

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

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

ARTICLE IV

Additional Event of Suspension

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

ARTICLE V

Termination

Section 5.01. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance 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
6 Samed Vurgun Street
Baku 370006
Azerbaijan Republic

Telex:

142116 BNKSL

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INDEVAS 248423 (MCI) or
Washington, D.C. 64145 (MCI)

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

AZERBAIJAN REPUBLIC

By /s/ F. Yusifov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ I. Husain

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

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

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

| Group | Subgroup | Description of Items |
|-------|----------|---|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured, tobacco refuse |
| 122 | - | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525 | - | Radioactive and associated materials |
| 667 | - | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971 | - | Gold, non-monetary (excluding gold ores and concentrates) |

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

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

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

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

SCHEDULE 2

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

1. The Borrower has issued a decree establishing the responsible authority and the mechanisms, in the context of privatizing enterprises for the transfer of ownership of land in possession of such enterprises in a manner satisfactory to the Association.

2. SPC has:

(a) identified not less than 600 enterprises, in addition to those identified in the SPC list dated June 30, 1997, for privatization through voucher and cash auctions; and

(b) completed voucher and cash auctions resulting in sale, to private owners, of not less than 51% (excluding 15% employee shares) of shares of not less than 500 enterprises.

3. The Borrower has implemented the Decree on Agroincom dated May 30, 1997, and the plan for the restructuring of Auto Concern dated June 23, 1997, in a manner satisfactory to the Association.

4. The Borrower has prepared, on the basis of principles satisfactory to the Association, and submitted to the Parliament a new draft law on securities.

5. The Borrower has completed and submitted to the Association an audit of the Savings Bank (Emanet Bank) for the period ending December 31, 1997, and for the last quarter of 1997, prepared in accordance with International Accounting Standards by a qualified international accounting firm which verifies the profitability of the said Bank for Fiscal Year 1997, and separately for the last quarter of Fiscal Year 1997, the compliance of the said Bank with the targets to be achieved by dates specified in the Letter of Agreement dated June 20, 1997, and the year-end capital adequacy.

6. The Savings Bank has complied with all targets to be achieved by such dates under the letter of agreement, dated June 20, 1997, between NBA and the Savings Bank in a manner satisfactory to the Association.

7. The Borrower has:

(a) provided a plan, satisfactory to the Association, to privatize the Savings Bank, in case its profitability is confirmed by the audit report referred to in the above paragraph 5; or

(b) withdrawn the Savings Bank's License and prepared a plan, satisfactory to the Association, for liquidation of the said Bank, in case its profitability is not confirmed under such audit.

8. The Borrower has completed and submitted to the Association an audit of the International Bank (Beynelhalk Bank) for the period ending December 31, 1997, prepared in accordance with International Accounting Standards by a qualified international accounting firm, verifying the year-end capital adequacy, the compliance of the said Bank with the Letter of Agreement dated June 20, 1997, and its business plan, and including a progress report on its privatization.

9. The International Bank has complied with all targets to be achieved by the dates specified under the Letter of Agreement, dated June 25, 1997, between NBA and the International Bank, and the business plan dated June 25, 1997, in a manner satisfactory to the Association.

10. The Borrower has completed and submitted to the Association an audit of Prominvest Bank for the period ending December 31, 1997, and for the last quarter of 1997, prepared in accordance with International Accounting Standards by a qualified international accounting firm, including the calculation of the year-end capital adequacy ratio, verifying the profitability of the said Bank for Fiscal Year 1997, and separately for the last quarter of Fiscal Year 1997, and its compliance with all the targets to be achieved by the dates specified under the Letter of Agreement dated June 20, 1997.

11. Prominvest Bank has complied with all targets to be achieved by the dates specified under the Letter of Agreement, dated June 20, 1997, between the NBA and Prominvest Bank in a manner satisfactory to the Association.

12. The Borrower has:

(a) provided a plan to achieve minimum CAR of 8% with private capital, by the end of Fiscal Year 1998 for Prominvest Bank, in case its profitability is confirmed by the audit report referred to in above paragraph 10; or

(b) taken all actions necessary, in a manner satisfactory to the Association, in case its profitability is not confirmed by such audit report.

13. The Borrower has completed and submitted to the Association an audit of Agroprom Bank for the period ending December 31, 1997, prepared according to International Accounting Standards by a qualified international accounting firm, verifying the profitability of the Bank for Fiscal Year 1997, and separately for the last quarter of Fiscal Year 1997, the year-end capital adequacy, and the compliance of the said Bank with all the targets to be achieved by the dates specified under the Letter of Agreement dated June 20, 1997.

14. Agroprom Bank has complied with all targets to be achieved by the dates specified under the Letter of Agreement, dated June 20, 1997, between the NBA and Agroprom Bank in a manner satisfactory to the Association.

15. The Borrower has prepared a plan, satisfactory to the Association, to achieve financial viability of Agroprom Bank by the end of 1998, in case its profitability is not confirmed by the audit report referred to in above paragraph 13.

16. The Borrower has implemented the Decree on the Assumption of the Responsibility for Certain Non-performing Loans of Prominvest Bank and Agroprom Bank in a manner satisfactory to the Association.

17. The Borrower has enacted a law on secured transactions, satisfactory to the Association.

