

CONFORMED COPY

CREDIT NUMBER 3789 AZ

Development Credit Agreement

(Irrigation Distribution System and Management Improvement Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 24, 2003



CREDIT NUMBER 3789 AZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 24, 2003, between AZERBAIJAN REPUBLIC (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project; and

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 (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) "EMMP" means Environmental Management and Monitoring Plan, dated March 1, 2003 adopted by the Borrower.

(b) "Financial Monitoring Report" or "FMR" means each report prepared in accordance with Section 4.02 of this Agreement.

(c) "O&M" means operation and maintenance of irrigation and drainage infrastructure.

(d) “PIP” means the Project Implementation Plan, satisfactory to the Association.

(e) “PIU” means the Project Implementation Unit established in the State Amelioration and Irrigation Committee of the Borrower.

(f) “Project Account” means the account referred to in Section 6.01 of this Agreement, maintained by the Borrower in local currency and to be used for financing the Borrower’s contribution to Project expenditures.

(g) “Sub-project(s)” means a project for rehabilitation of an on- or off-farm irrigation or drainage system under Part B of the Project, selected in accordance with the provisions of Schedule 6 of this Agreement.

(h) “WUA” means water users association, defined in the Law on Amelioration and Irrigation.

(i) “Selected Raions” means Khachmaz, Geranboy, Aghjabedi, Sabirabad, Saatli, Zardab, Imishli, Guba, Beylagan, Babek and Sharur Raions of the Borrower.

(j) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement.

(k) “WUA-SU” means a support unit in SAIC to provide support for the development of WUAs.

(l) “SAIC” means the State Amelioration and Irrigation 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 twenty-five million seven hundred thousand Special Drawing Rights (SDR 25,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for

expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Credit.

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

Section 2.03. The Closing Date shall be March 31, 2010 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 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 February 15 and August 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 semiannual installments payable on each February 15 and August 15 commencing August 15, 2013 and ending February 15, 2038. Each installment to and including the installment payable on February 15, 2023 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 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 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

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower through the PIU shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and the PIP.

Section 3.02. Except as the Association shall otherwise agree, procurement of goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to

the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit 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 separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association'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) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that PIP shall have been amended, suspended, abrogated, repealed or waived, or other legal provisions therein shall have been enacted, so as to affect materially and adversely in the opinion of the Association, the carrying out of the Project.

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 (a) of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has opened a Project Account in a bank on terms and conditions acceptable to the Association with an initial deposit in local currency equivalent to \$100,000.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
83 Samed Vurgun Street
Baku 370022
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:	Facsimile:
INDEVAS	248423 (MCI) or	(202) 477-6391
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 Baku, Azerbaijan Republic, as of the day and year first above written.

AZERBAIJAN REPUBLIC

By: /s/ Abbas Abbasov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Saida Bagirova

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	18,700,000	93%
(2) Goods	1,840,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services and audits	2,940,000	75% of local individuals, 95% for local firms, 85% for foreign firms and individuals, and 100% of eligible social charges
(4) Training	600,000	100%
(5) Incremental Operating Costs	700,000	70% and 100% of eligible social charges
(6) Unallocated	<u>920,000</u>	
TOTAL	<u>25,700,000</u>	

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;

(c) the term “foreign firm” means a consulting firm which is registered or incorporated in the territory of any country other than that of the Borrower;

(d) the term “foreign individual” means any individual consultant who is not a national of the territory of the Borrower;

(e) the term “local firm” means a consulting firm which is registered or incorporated in the territory of the Borrower;

(f) the term “training” means formal courses and study tours for government and PIU staff, WUA staff and members, in accordance with annual training plans approved by the Association;

(g) the term “incremental operating costs” means the incremental expenses incurred by the PIU and WUA-SUs on account of Project implementation for communication, printing and publications, supplies, vehicle operation and maintenance, transportation and field trip expenses, bank charges, eligible social charges and remuneration for support staff for the PIU, and such other expenditures as may be agreed upon by the Association, based on an annual budget acceptable to the Association; and

(h) The term “eligible social charges” means the employer’s contribution to social charges assessed by the Borrower on the employment contracts with individual consultants and support PIU staff who are citizens of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures under Category (1), unless: (i) the amendments to the Law on Amelioration and Irrigation (Law No. 116-IQ, June 5, 1996) has been enacted, in substance satisfactory to the Association; and (ii) a rehabilitation proposal under Part B of the Project has been approved by the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods costing less than US\$100,000 equivalent; (ii) services of consulting firms costing less than US\$100,000 equivalent; (iii) individual consultants costing less than US\$25,000; (iv) works contracts valued at less than US\$600,000; (v) training; and (vi) incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The development objective of the Project is to improve the effectiveness and financial viability of irrigation water distribution and management on 56,000ha through supporting WUAs and SAIC.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A - Development of WUAs

1. Strengthening of WUA support units at the central offices in Baku and Nakchivan, and at raion level through provision of technical assistance, training, study tours, vehicles, office equipment, and financing of SAIC's office renovation of the WUA support units in Baku and Nakchivan.
2. Strengthening of approximately 280 WUAs through provision of technical assistance and training in the Selected Raions of the Borrower.
3. Strengthening of approximately 45 WUAs in the Selected Raions of the Borrower through the provision of small equipment, such as motorcycles, office furniture, computers two-way radios, small maintenance equipment and field measuring devices.

Part B - Irrigation and Drainage Infrastructure Rehabilitation

1. Rehabilitation of on-farm infrastructure of 45 WUAs commanding 56,000ha in the Selected Raions of the Borrower.
2. Rehabilitation of the Bahramtape headworks on the Araz River.
3. Rehabilitation of off-farm works associated with the on-farm works under Part B.1 of the Project.
4. Construction and rehabilitation of 1,000 hydroposts at the boundaries of WUA command areas in the Selected Raions of the Borrower.

Part C - Project Management

Provision to the PIU of technical assistance, including audit services, training, goods and equipment, and office renovation.

* * *

The Project is expected to be completed by September 30, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Good 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 I 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) Preference for domestically manufactured goods and domestic contractors

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 and works to be carried out by domestic contractors.

- (b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$600,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraphs 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$600,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, subject to the changes described in the supplemental letter.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, 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. Procurement from UN Agencies

Vehicles and office equipment may be procured from Inter-Agency Procurement Services Office in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, 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 Association, 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 Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods and works procured under Part B; and (ii) the first three contracts for works procured under Part C1, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts procured under Parts C.2, 3, 4 and 5 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association 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.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for design and supervision under Part B of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for monitoring studies under Parts A and B of the Project and agricultural studies under Part A of the Project estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for audits of Project accounts, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for WUA mobilization, SAIC and WUA training, engineering design, environmental monitoring and project management under Parts A, B, and C of the Project tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the report on the comparison of the qualifications and experience of candidates, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(c) Terms of reference for all consulting assignments estimated to cost less than \$100,000 for consulting firms and \$25,000 for individual consultants shall be subject to the Association's prior review.

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 Consultant Guidelines shall apply.

SCHEDULE 4

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 indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2006, 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; and
 - (c) review with the Association, by September 30, 2006, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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 Association's views on the matter.
2. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the PIP.
3. The Borrower shall maintain the PIU until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to it responsibility for overall management of Project implementation and coordination, including:
 - (a) preparation of disbursement applications under the Credit;
 - (b) management of the Special Account referred to in Schedule 5 to the Development Credit Agreement;
 - (c) maintenance of records and accounts related to the Project and arranging for the audit thereof.

(d) preparation of bidding documents and administration of bidding procedures and of contracts under the Project;

(e) preparation of quarterly progress reports and submission thereof not later than 45 days after the end of each quarter to the Borrower and the Association, the first such report to be furnished to the Association not later than April 30, 2004; and

(f) management and supervision of WUA Sub-projects in accordance with procedures and eligibility criteria set forth in Schedule 6 to this Agreement.

4. The Borrower shall maintain the WUA SUs until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to it the responsibility for implementation of Development of WUA Component.

5. The Borrower shall prepare and furnish to the Association by September 30 in each year, for its review and concurrence, an annual work program for the Project for the following calendar year, including procurement and financing plans.

6. The Borrower shall ensure that all measures necessary for the carrying out of the EMMP shall be taken in a timely manner and shall include adequate information on the carrying out of such measures in the progress reports referred to in paragraph 3 (e) of this Schedule.

7. By June 30, 2004, the Borrower shall have incorporated WUA's oversight functions into the tasks of the WUA SU in Baku, satisfactory to the Association.

8. Training shall be implemented according to an annual training program that the PIU shall prepare and submit to the Association for no objection before implementation.

9. Incremental operating costs shall be incurred according to an annual budget to be prepared by the PIU and to be approved by the Association before any expenditures are incurred.

10. By June 30 of each year, the Borrower shall: (a) submit to the Association a report on the actual expenditures for O&M in the Selected Raions during the previous year; (b) submit to the Association its budgetary allocations for O&M in the Selected Raions for the following year; and (c) finalize such allocations after taking into consideration comments from the Association.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(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 Credit 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 \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 4,000,000.

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 Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association 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 Association 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 Association, refund to the Association such outstanding amount.

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

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

SCHEDULE 6

Procedures, Eligibility Criteria and Terms and Conditions Applicable to Sub-projects under Part B of the Project

Part A: Procedures

1. The Borrower shall cause the PIU, prior to the commencement of rehabilitation works under each Sub-project, to submit the proposal for that Sub-project to the Association for its review and approval.
2. In submitting a proposal for a Sub-project for Part B.1 of the Project to the Association for its review and approval, the PIU shall prepare and furnish to the Association a report satisfactory to the Association which shall contain: (i) a description, bill of quantities, cost estimates and an economic analysis of the proposed Sub-project; (ii) information on the WUA responsible for the proposed Sub-project, including information on its eligibility, legal, institutional and financial status, implementation capacity, its operation and maintenance plan and the estimate of the irrigation service fee; (iii) information on the infrastructure use right, water supply contracts, and the status of WUA operation with regard to the amended Law on Amelioration and Irrigation; (iv) a description of the WUA members' participation in the selection of the proposed rehabilitation works; (v) information on the environmental considerations; and (vi) such other information as the Association shall reasonably request.
3. In submitting a proposal for a Sub-project for Parts B.2 and 3 of the Project to the Association for its review and approval, the PIU shall prepare and furnish to the Association a report satisfactory to the Association which shall contain: (i) a description, bill of quantities, cost estimates and an economic analysis of the proposed Sub-project; (ii) information on the on-farm areas and WUAs that are served by the off-farm works; (iii) information on the environmental considerations; and (iv) such other information as the Association shall reasonably request.

Part B: Eligibility Criteria

1. All irrigation and drainage rehabilitation activities under the Project shall be selected in accordance with criteria satisfactory to the Association, including the criteria set forth below.

2. In selecting a rehabilitation activity the Borrower, through the PIU, shall ensure that:

(a) for an irrigation activity for Part B.1 of the Project, the WUA has fulfilled the eligibility criteria for participation in the Project, as defined in the PIP;

(b) an irrigation activity shall seek to rehabilitate an existing irrigation infrastructure, with no irrigation of new areas or expansion of the existing irrigation infrastructure;

(c) depending on the assessment of the potential impact, if any, of the activity on other countries the activity shall be in conformity with policies and procedures acceptable to the Association, and shall be submitted to the Association for its prior review and approval.

(d) the Sub-project shall have an economic rate of return equal to or larger than 12%.

3. In addition to the criteria listed above, the Borrower, through the PIU, shall ensure for each irrigation and drainage activity that:

(a) it shall be in conformity with all local and national environmental standards, and its design and implementation shall provide for adequate mitigation measures to ensure full compliance with local and national health, environmental and safety standards and requirements;

(b) the Sub-project shall not drain or reclaim any significant area of natural wetland which has or is likely to have a significant impact on an important area of wildlife habitat or major fishery;

(c) the Sub-project shall address the risk of encountering unknown archaeological or historical sites by adopting and following appropriate procedures, satisfactory to the Association, addressing such a risk.

Part C: Terms and Conditions

1. Each irrigation and drainage activity shall be carried out with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with appropriate administrative, financial, technical, engineering and environmental standards, including local and national environmental requirements.

2. The Borrower, through the PIU, shall allow the representatives of the Association, if the Association shall so request, to inspect the sites, works, plants, goods and construction included in the Sub-project, the operation thereof, and any relevant records and documents.