

CONFORMED COPY

CREDIT NUMBER 3109 AZ

Development Credit Agreement

(Pilot Reconstruction Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 1998

CREDIT NUMBER 3109 AZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 7, 1998, between AZERBAIJAN REPUBLIC (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Project will be carried out by Azerbaijan Reconstruction and Rehabilitation Agency (ARRA) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to ARRA the proceeds of the Credit as provided in this Agreement;

(C) The Borrower intends to contract from other donor sources a grant or grants (the Additional Grants) in an amount equivalent to about \$15,800,000 to assist in financing Parts A and B 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 and in the Project Agreement of even date herewith between the Association and ARRA;

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 December 2, 1997, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association 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 Participating Country 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 Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "Agency Agreement" means an agreement to be entered into between ARRA and a Service Provider (as hereinafter defined) pursuant to the provisions of paragraph 4 of Schedule 2 to the Project Agreement;

(b) "ARRA" means Azerbaijan Reconstruction and Rehabilitation Agency, a public agency of the Borrower, established pursuant to its Charter (as hereinafter defined);

(c) "Azenerji" means the power company of the Borrower, established as a joint-stock company pursuant to Presidential Decree No. 423 dated September 17, 1996, and includes any successor or successors thereto acceptable to the Association;

(d) "Charter" means the charter of ARRA, dated September 10, 1996, as amended to the date of this Agreement;

(e) "Demining Agency" means the agency to be established pursuant to Section 6.01(a) of this Agreement and referred to in Section 3.04 of this Agreement;

(f) "Guidelines" means the guidelines to be adopted by ARRA pursuant to Section 6.01 (e) of this Agreement.

(g) "IDP" means an internally displaced person; and "IDPs" means, collectively, all said persons;

(h) "Law No. 155 EG" means the Law on Land Reform of the Borrower dated July 16, 1996;

(i) "Law No. 978" means the Law on Kolkhoz and Sovkhoz Reform of the Borrower dated February 18, 1995;

(j) "Manat" means the currency of the Borrower;

(k) "Microcredit" means a credit made or proposed to be made to an IDP out of the proceeds of the Credit by ARRA, through a Service Provider (as hereinafter defined), under a Microcredit Agreement (as hereinafter defined) pursuant to the provisions of paragraph 7 of Schedule 2 to the Project Agreement; and the term

"Microcredits" means, collectively, more than one Microcredit;

(l) "Microcredit Agreement" means an agreement to be entered into between a Service Provider and IDPs in respect of income generating activities to be financed out of the proceeds of a Microcredit;

(m) "Mines" means landmines and includes explosive items such as bombs, booby traps, munitions and exploded ordnance of any kind;

(n) "MOA" means the Ministry of Agriculture of the Borrower;

(o) "Monitoring and Evaluation Unit" means the unit within ARRA as referred to in Section 2.06 of the Project Agreement to monitor the implementation of the Project;

(p) "Project Account" means the account to be opened pursuant to Section 6.01 (b) of this Agreement;

(q) "Project Agreement" means the agreement between the Association and ARRA of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(r) "Project Areas" means Fuzuli, Agdam and Terter raions of the Borrower;

(s) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated May 7, 1997, and June 26, 1997, between the Borrower and the Association (Agreement Letter Q035-0 AZ), as amended;

(t) "Rental Agreement" means an agreement to be entered into between ARRA and eligible IDPs under Part C.1(b) of the Project;

(u) "Relocation Agency" means the agency to be established pursuant to Section 6.01 (a) of this Agreement to be responsible for the implementation of Part A of the Project;

(v) "Service Provider" means a public or private institution or a non-governmental organization eligible to engage in income generating activities to IDPs under Parts C.5 and C.6 of the Project;

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

(x) "Sub-grant" means a grant made or proposed to be made by Service Providers out of the proceeds of the Credit to IDPs; and

(y) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and ARRA pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement.

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 fourteen million nine hundred thousand Special Drawing Rights (SDR 14,900,000).

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: (i) for amounts paid (or, if the Association shall so agree, amounts to be paid) by a Service Provider on account of withdrawals made by IDPs under a Microcredit to meet the reasonable cost of goods and services for income generating activities in respect of which the withdrawal from the Credit Account is required; (ii) for amounts paid (or, if the Association shall so agree, amounts to be paid) by a Service Provider under a Sub-grant; and (iii) 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 Parts C, D, E, and F of 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 commercial bank on terms and conditions satisfactory to the Association including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 December 31, 2001 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 March 15 and September 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 March 15 and September 15 commencing September 15, 2008 and ending March 15, 2033. Each installment to and including the installment payable on March 15, 2018 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 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause ARRA to perform in accordance with the provisions of the ARRA Project Agreement all the obligations of ARRA therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ARRA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) the Borrower shall make available as a grant the proceeds of the Credit allocated from time to time to Categories in the table in paragraph 1 of Schedule 1 to this Agreement to ARRA under a subsidiary agreement to be entered into between the Borrower and ARRA (the Subsidiary Agreement) and on terms and conditions which shall have been approved by the Association.

(c) the Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works, and consultants' services required for Parts C, D, E, and F of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement.

Section 3.03. The Borrower shall maintain the Project Account during the execution of the Project and deposit, semiannually, an amount in Manat equivalent to \$250,000 into such account.

Section 3.04. The Borrower shall: (a) maintain, until the completion of the Project, the Demining Agency, to be responsible for the identification of mined areas, implementation of demining contracts and a mine awareness program, staffed at all times by personnel with qualifications, terms of reference and functions at all times satisfactory to the Association; and (b) ensure that all Mine clearance activities are carried out and all Mines cleared are promptly destroyed in accordance with appropriate safety standards and guidelines.

Section 3.05. The Borrower shall maintain until the completion of the Project, the Relocation Agency staffed at all times by personnel with qualifications, terms of reference and functions satisfactory to the Association.

Section 3.06. The Borrower shall make adequate arrangements with Azenerji to ensure: (a) that the IDPs will not be charged for their electricity consumption during the first year following their relocation up to 2,000 kWh per capita; and (b) that the charges for the IDPs' electricity consumption will progressively be increased so as to reach the level of charges by other consumers by the end of the fourth year following their relocation.

Section 3.07. The Borrower shall cause Azenerji to: (a) prepare and furnish to the Association by June 30, 1999, a study of options for cost recovery by Azenerji for the services provided under the Project; and (b) thereafter exchange views with the Association to determine the most appropriate option and steps to be taken for the implementation of the said study.

Section 3.08. The Borrower shall take all measures necessary to enable the Service Providers to have access to relevant sites in Project Areas.

Section 3.09. The Borrower shall take all measures necessary to ensure that the right of IDPs to the land that they are relocated shall be protected through the issuance of land titles pursuant to the provisions of Law No. 155 EG and Law No. 978.

Section 3.10. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by ARRA pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
 - (ii) enable the Association's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than four (4) 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 Association shall have reasonably requested, including 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; and
 - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events is are specified:

(a) Law No. 155 EG and Law No. 978 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ARRA to carry out the Project.

(b) The development activity for which the land or facilities has or have been cleared of Mines under the project is, in the sole opinion of the Association, jeopardized by laying down new Mines anywhere in the territory of the Borrower.

(c) The Additional Grants shall have failed to become effective by September 15, 1999, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the

obligations of the Borrower under this Agreement.

- (d) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
 - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and
- (b) the event specified in paragraph (d)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

- (a) the Demining Agency and the Relocation Agency have been established in a manner satisfactory to the Association;
- (b) the Borrower has opened the Project Account in a local commercial bank and made an initial deposit of the amount in Manat equivalent to \$250,000 into such account;
- (c) the Subsidiary Agreement has been executed on behalf of the Borrower and ARRA, on terms and conditions satisfactory to the Association;
- (d) the Borrower has appointed independent auditors referred to in Section 4.01(b)(i) of this Agreement, with experience and qualifications, and under terms of reference acceptable to the Association; and
- (e) ARRA has adopted the Guidelines, setting out the terms and conditions and criteria for Rental Agreements, for the implementation of Part C.1(b) of the Project, in form and content satisfactory to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

- (a) that the Project Agreement has been duly authorized or ratified by ARRA, and is legally binding upon ARRA in accordance with its terms; and
- (b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and ARRA and is legally binding upon the Borrower and ARRA in accordance with its 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 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
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:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

AZERBAIJAN REPUBLIC

By /s/ A. Sharifov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ T. Yaprak

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
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(1)	Civil works	5,270,000	100%
(2)	Consultants' services and training	1,560,000	100%
(3)	Microcredits under Part C.5 of the Project	300,000	100% (of amounts disbursed)
(4)	Sub-grants under Part C.6 of the Project	230,000	100% (of amounts disbursed)
(5)	Equipment and materials	4,530,000	100% of foreign expenditures, 100% of local expenditures and locally
			(ex-factory cost)
			85% of local expenditures for other items procured
(6)	Refunding of Project Preparation Advance	1,120,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7)	Unallocated	1,890,000	
	TOTAL	14,900,000	

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 "training" means training activities (other than consultants' services) to be carried out under the Project, including the travel cost and per diem of the trainees.

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; (b) under Category (3) of the table set forth in paragraph 1 of this Schedule, unless the Microcredit has been made in accordance with the procedures and on terms and conditions set forth or referred to in paragraph 7 of Schedule 2 to the Project Agreement; and (c) under Category (4) of the table set forth in the table in paragraph 1 of this Schedule, unless the Sub-grant has been made in accordance with paragraph 8 of Schedule 2 to the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures: (a) for goods under contracts costing less than \$200,000 equivalent; (b) for works under contracts costing less than \$400,000 equivalent; (c) for services for consulting firms under contracts costing less than \$100,000 equivalent; and (d) for services for individual consultants under contracts costing less than \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to facilitate the relocation of IDPs to Project Areas and raise their standard of living through: (a) development of an effective approach to resume economic activities; (b) strengthening of the Borrower's institutional capacity; and (c) improvement of donor coordination activities.

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: Relocation

Provision of assistance for the management of voluntary relocation of IDPs to Project Areas.

Part B: Housing

Provision of equipment, materials and civil works for the rehabilitation and reconstruction of housing in Project Areas.

Part C: Income Generation

1. Provision of (a) agricultural inputs including quality seeds, fertilizer, and livestock; and (b) farm machinery, equipment and spare parts to increase agricultural production.
2. Provision of equipment, materials and civil works for the rehabilitation of irrigation infrastructure in Project Areas.
3. Provision of equipment, materials and technical assistance to: (a) establish land registration services and issuance of land titles to IDPs; (b) improve agricultural information services; (c) carry out on-farm adaptive field trials of improved practices; and (d) provide marketing support.
4. Provision of equipment, materials and technical assistance for: (a) the establishment of water user associations; (b) quality control of irrigation; and (c) monitoring and evaluation.
5. Provision of Microcredits to IDPs to carry out projects for income-generating activities.
6. Provision of Sub-grants to IDPs for preparation of income-generating activities.
7. Provision of equipment, materials and civil works for carrying out public works.

Part D: Health and Education

1. Provision of equipment, materials and civil works for repair and rehabilitation of health service facilities in Project Areas.
2. Provision of essential pharmaceuticals, medical supplies and equipment.
3. Provision of technical assistance and training for: (a) national prescription practices and primary care/family medicine; and (b) monitoring and evaluation.
4. Provision of equipment, materials and civil works to rehabilitate public schools.
5. Provision of textbooks, supplementary readers, writing materials and pedagogical materials.
6. Provision of technical assistance and training to strengthen the capacity of local education authorities and teachers.

Part E: Infrastructure and Energy

1. Provision of equipment, materials and civil works to repair water supplies, including the rehabilitation of wells, pumping stations, water mains and pipes in Project Areas.
2. Provision of technical assistance and training for the preparation of designs and tender documents.
3. Provision of equipment, materials and civil works for the rehabilitation of: (a) railway connection to Goradiz; (b) roads; (c) telephone lines and cables in Project Areas.

4. Provision of equipment, materials and civil works to reconstruct and rehabilitate transmission and distribution facilities and networks and to upgrade existing facilities.

Part F: Institutional Support

Provision of equipment, materials and technical assistance to strengthen the institutional capacity of ARRA and Demining Agency and to improve donor coordination.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), and (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 Parts C, D, E, and F of 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 \$1,500,000 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 Account.

(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.

