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**Credit Number 2751-1 AZ**

**(Amendment)**

# **Agreement Amending Development Credit Agreement**

**(Greater Baku Water Supply Rehabilitation Project)**

**between**

**AZERBAIJAN REPUBLIC**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 30, 2003**

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**AGREEMENT AMENDING  
DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated June 30, 2003, between AZERBAIJAN REPUBLIC (the "Borrower") and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association").

WHEREAS (A) the Borrower and the Association have entered into a Development Credit Agreement (Greater Baku Water Supply Rehabilitation Project) dated July 6, 1995 (the Development Credit Agreement) for the purpose of assisting in financing of the Greater Baku Water Supply Rehabilitation Project as described in Recital (A) of the Development Credit Agreement (the Project);

(B) the Borrower has requested the Association to provide additional assistance towards the financing of the Project by increasing the amount made available under the Development Credit Agreement by an amount in various currencies equivalent to ten million three hundred thousand Special Drawing Rights (SDR 10,300,000) (the Supplemental Credit); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to provide such additional assistance to the Borrower upon the terms and conditions set forth in this Amending Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**Amendments of the Development Credit Agreement**

Section 1.01 Section 1.01 of the Development Credit Agreement is revised to read as follows:

"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. Section 1.02 of the Development Credit Agreement is amended by addition of new Subsections (k), (l), (m) and (n) as follows:

“Section 1.02 (k) “Amending Agreement” means this agreement amending the Development Credit Agreement (Greater Baku Water Supply Rehabilitation Project) between the Borrower and the Association, dated July 6, 1995;

(l) “EMP” means the Environmental Management Plan prepared and adopted by the Borrower on June 28, 2001, describing environmental mitigation, monitoring and institutional measures under the Project;

(m) “Supplemental PIP” means the Project implementation plan for carrying out of the activities financed by the Supplemental Credit; and

(n) “Program to Strengthen Financial Discipline in the Water Sector” means the program prepared and adopted by the Borrower through the Presidential Decree # 893 dated March 25, 2002, including an action plan to strengthen the financial discipline of the water sector”.

Section 1.03. Section 2.01 of the Development Credit Agreement is amended to read as follows:

“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 forty-nine million one hundred thousand Special Drawing Rights (SDR 49,100,000), which includes (a) an original amount in various currencies equivalent to thirty-eight million eight hundred thousand Special Drawing Rights (SDR 38,800,000) (the “Initial Financing”); and (b) an additional amount in various currencies equivalent to ten million three hundred thousand Special Drawing Rights (SDR 10,300,000) (the “Additional Financing”).

Section 1.04. “In Section 2.03 of the Development Credit Agreement the Closing Date is amended to read “December 31, 2004”.

Section 1.05. A proviso is added at the end of subsection 2.04 (b) (i) of the Development Credit Agreement to read as follows:

“provided, however, that the commitment charge on the Additional Financing shall accrue from a date sixty (60) days after the date of the Amending Agreement”.

Section 1.06. Section 2.07(a) of the Development Credit Agreement is revised to read as follows:

- “(a) Subject to paragraphs (b) and (c) below, the Borrower shall:
- (i) repay the principal amount of the Initial Financing of the Credit in semi-annual installments payable on each May 1 and November 1 commencing November 1, 2005 and ending May 1, 2030. Each installment to and including the installment payable on May 1, 2015 shall be one and one-fourth per cent (1-1/4%) of such amount of the Initial Financing, and each installment thereafter shall be two and one-half percent (2-1/2%) of such amount of the Initial Financing; and
  - (ii) repay the principal amount of the Additional Financing of the Credit in semi-annual installments payable on each May 1 and November 1 commencing May 1, 2013, and ending November 1, 2037. Each installment to and including the installment payable on November 1, 2022 shall be one and one-fourth per cent (1-1/4%) of such amount of the Additional Financing, and each installment thereafter shall be two and one-half percent (2-1/2%) of such amount of the Additional Financing.”

Section 1.07. A new sub-paragraph (B) is added into paragraph (b) of Section 3.01 of the Development Credit Agreement to read as follows:

“Section 3.01 (b) (B) The Borrower shall relend the proceeds of the Supplemental Credit to ARWC by amending the Subsidiary Loan Agreement dated September 8, 1995, between the Borrower and ARWC, under terms and conditions which shall have been approved by the Association”.

Section 1.08. The earlier paragraph (b) of Section 3.01 of the Development Credit Agreement is re-lettered sub-paragraph (b) (A).

Section 1.09. Section 3.01(c) of the Development Credit Agreement is revised to read as follows:

“Section 3.01 (c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit and the Supplemental Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof”.

Section 1.10. A new Section 4.02 is added to the Development Credit Agreement to read as follows:

“Section 4.02. The Borrower shall:

- (a) undertake all measures necessary to implement the Program to Strengthen Financial Discipline in the Water Sector;
- (b) not later than December 31, 2002, review and approve the methodology and procedures to set water tariffs;
- (c) review the periodic proposals for tariff adjustments submitted by ARWC at least semi-annually and promptly undertake actions to adjust said tariffs so that ARWC can meet its obligations by collecting sufficient revenues to cover operations and adequate maintenance costs and other expenses, the first such review to take place by January 31, 2003;
- (d) after review of the forecast amount of water consumption prepared by ARWC every six (6) months: (a) allocate in the relevant operating budgets of budget organizations adequate funds for payment of water fees; and (b) ensure that said funds are paid to ARWC;
- (e) undertake all measures necessary to enable ARWC to collect water fees from its customers, including but not limited to disconnection of non-paying customers; and
- (f) not later than December 31, 2002 define and initiate implementation of adequate measures to enable accounts payable and receivable of ARWC to be gradually eliminated”.

Section 1.11. Schedule 1 to the Development Credit Agreement is hereby revised as set forth in the Annex to this Amending Agreement.

Section 1.12. Paragraph 4 of Schedule 1 is revised to read as follows:

“4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods not exceeding \$100,000 equivalent; (b) except for the first two contracts, works not exceeding \$100,000 equivalent; (c) consulting firms not exceeding \$100,000 equivalent; and (d) individual consultants not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower”.

Section 1.13. In Schedule 2 to the Development Credit Agreement, Part B, Part C and Part E are revised to read as follows and the Project Completion Date is revised to read “June 30, 2004”:

“ Part B: Operations and Maintenance Improvements

Provision of equipment and materials, to improve the operations and maintenance capacity of ARWC, and supply and installation of pipes and fittings for rehabilitation of the water distribution network.

Part C: Supply Improvements

Rehabilitation of Jeiranbatan and Kura River treatment facilities to improve the quality and quantity of water; rehabilitation of about 13 pumping stations and 261 booster stations; installation of master flow meters to measure water production accurately and to control and monitor system performance; and repair of ARWC structures and facilities damaged by the November 25, 2000 earthquake.

Part E: Studies and Construction Supervision

Preparation of: (a) a national policy framework; (b) a regional water and sewerage master plan for the Apsheron Peninsula, to address current sector issues by taking into account possible future developments and options; (c) detailed designs and tender documents for a future investment program; (d) tariff, legal and other studies to support the reform of the water sector; and (e) financing of the construction supervision”.

## **ARTICLE II**

### **Effective Date; Termination**

Section 2.01. This Amending Agreement shall not become effective until evidence satisfactory to the Association shall have been furnished to the Association that: (a) the execution and delivery of this Amending Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental action; and (b) an amended Subsidiary Loan Agreement has been executed on behalf of the Borrower and ARWC.

Section 2.02. As part of the evidence to be furnished to Section 2.01 of this Amending Agreement, there shall be furnished to the Association an opinion or opinions satisfactory to the Association of Counsel acceptable to the Association showing, on behalf of the Borrower, that: (i) this Amending Agreement has been duly authorized or

ratified by, and executed and delivered on behalf of the Borrower and is legally binding upon the Borrower in accordance with its terms; (ii) the Agreement Amending Project Agreement has been signed and executed and delivered by the Association and ARWC; and (iii) the Agreement Amending Subsidiary Loan Agreement has been signed, executed and delivered by the Borrower and ARWC.

Section 2.03. This Amending Agreement shall come into force and effect on the date upon which the Association dispatches to the Borrower notice of its acceptance of the evidence required by Section 2.01. of this Amending Agreement.

Section 2.04. If this Amending Agreement shall not have come into force and effect by a date ninety (90) days after the date of this Amending Agreement, this Amending Agreement and all obligations of the parties hereunder shall terminate, unless the Association establishes a later date for the purposes of this Section. If this Amending Agreement shall terminate under the provisions of this Section, the Development Credit Agreement shall continue in full force and effect, as if this Amending Agreement had not been executed.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Amending 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/ Avaz Alekperov

Authorized Representative

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

By: /s/ Akbar Noman

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 amount of the Credit to each Category and the percentage of expenditures for items to be financed in each Category:

<u>Category</u>	<u>Amount of the (Initial Financing) allocated (expressed in SDR Equivalent)</u>	<u>Amount of the Credit (Additional Financing) allocated (expressed in SDR Equivalent)</u>	<u>% of Expenditure to be Financed</u>
(1) Turnkey contract	17,183,000.00	—	85%
(2) Civil works	3,684,992.02	1,580,000	65%
(3) Goods	11,855,851.82	7,280,000	100% of foreign expenditures, 100% local expenditures (ex factory (cost) and 85% of local expenditures for other items procured locally
(4) Consultants' services and training	5,320,000.00	500,000	94%
(5) Refunding of Project Preparation Advance	676,084.75	—	Amounts due pursuant to Section 2.02(c) of this Agreement
(6) Unallocated	80,071.41	940,000	
<b>TOTAL</b>	<b><u>38,800,000.00</u></b>	<b><u>10,300,000</u></b>	