

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7889-AZ

Loan Agreement

(Third Highway Project)

between

REPUBLIC OF AZERBAIJAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 11, 2010

LOAN NUMBER 7889-AZ

LOAN AGREEMENT

Agreement dated August 11, 2010, between REPUBLIC OF AZERBAIJAN (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred and seventy one million and six hundred thousand United States dollars (US\$171,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are June 15 and December 15 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by ARS in accordance with the provisions of Article V of the General Conditions and the Subsidiary Agreement.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.
- 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:
- (a) maintain, until the completion of the Project, a Project Account in Manat on terms and conditions acceptable to the Bank, to finance its counterpart contribution to the expenditures of the Project;
 - (b) replenish, on a monthly basis, the Project Account opened pursuant to Section 5.01 (b) of this Agreement up to the original level of no less than two million Manats, and thereafter during each following month deposit into the Project Account the amounts required to cover the Borrower's counterpart contributions, as determined by the Borrower and the Bank; and
 - (c) ensure that the funds deposited into the Project Account shall be used exclusively to finance the Borrower's counterpart contributions to the Project.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following: that the Presidential Decree on the Measures to Improve Management of Transport and Road Complex (Decree No. 1992), dated February 22, 2007, or the Decision No. 180 of the Cabinet of Ministers dated November 15, 2007 has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the ARS to perform any of its obligations under the Subsidiary Agreement.
- 4.02. The Additional Event of Acceleration consists of the following: that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrowers.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Agreement has been executed by the Ministry of Finance and the Ministry of Transport on behalf of the Borrower and the ARS, under terms and conditions acceptable to the Bank;
 - (b) The Project Account has been opened by the Borrower in a local commercial bank satisfactory to the Bank, and an initial deposit in an amount of not less than two million Manat has been made by the Borrower into such account; and
 - (c) The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to request disbursement thereunder, except only the effectiveness of this Agreement, have been fulfilled.
- 5.02. The Additional Legal Matter consists of the following: that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the ARS and is legally binding upon the Borrower as represented by the Ministries of Finance and Transport and the ARS in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.
- 6.02. The Borrower's Address is:

Ministry of Finance
83 Samed Vurgun Street
Baku AZ1022
Republic of Azerbaijan

Telex:

142116 BNKSL

Facsimile:

99412 4044720

99412 4044721

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

REPUBLIC OF AZERBAIJAN

By /s/ Ziya Arzuman oglu Mammadov
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joseph Owen
Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to contribute to a more efficient and safer Baku-Shamakhi road and higher quality road services as part of the general network upgrading to motorway standard, and to improve the management of the nascent motorway network.

The Project consists of the following parts:

Part A: Motorway Improvement

1. Upgrading the existing two lane Baku-Shamakhi road to a four lane motorway and the related road safety activities, through the carrying out of works and the provision of goods and consultants' services.
2. Provision of consultants' services for the supervision and technical audit of the above mentioned road and the design of priority investments of the main road network.

Part B: Institutional Development

1. Preparation of a study to explore options for a policy on management and financing and efficient allocation of resources for Azerbaijan's motorways, through the provision of consultants' services and training.
2. Institutional development of the ARS in motorway operation and maintenance by: (a) establishing motorway guidelines; (b) testing a small experimental motorway management unit at ARS; and (c) carrying out an operations and maintenance pilot on sections of existing motorways, through the provision of goods, consultants' services and training.

Part C: Project Management

Supporting the Project management capacity of the PIU, through the provision of goods, consultants' services and training.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Except as the Bank shall otherwise agree, the Borrower shall: (a) ensure that the criteria, policies, procedures and arrangements set out in the Operational Manual, the EMF, and the RPF are applied by the ARS; and (b) not amend or waive, or permit to be amended or waived, the Operational Manual, the EMF, and/or the RPF, or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project.

2. The Borrower shall, until the completion of the Project, cause the ARS to maintain the PIU and shall ensure that the PIU is adequately staffed by personnel with qualifications and under terms of reference and functions at all times in accordance with procedures necessary and appropriate for the carrying out of the Project, and satisfactory to the Bank. The functions of the PIU shall include, inter alia, responsibility for: (a) the procurement process, financial management and the preparation of withdrawal applications under the Project; and (b) monitoring and evaluation of the progress in implementing the Project, in accordance with indicators agreed upon with the Bank.

3. The Borrower shall permit the use of standards for design, construction and planning of motorways and highways adopted by the European Union or, alternatively, such standards adopted by the American Association of State Highway and Transportation Officials (in addition to the national standards), acceptable to the Bank, in the design, construction and maintenance of road works under the Project.

4. By not later than December 31, 2010, the Borrower shall cause the ARS to recruit a financial auditor under terms of reference and conditions satisfactory to the Bank.

5. The Borrower shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, six (6) months as of the completion of the works for upgrading the Baku-Shamakhi road under Part A of the Project, a report on the execution of such works and the related plan on operations and maintenance of the Baku-Shamakhi road.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project by the ARS, the Borrower shall make the proceeds of the Loan available to the ARS under a subsidiary agreement (“Subsidiary Agreement”) between the Ministry of Finance and the Ministry of Transport on behalf of the Borrower and the ARS, under terms and conditions approved by the Bank, which

shall include, without limitation ARS's undertakings to carry out the Project in accordance with the provisions set forth in this Agreement, the Operational Manual, Anti-Corruption Guidelines, EMF and the RPF.

2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the EMF, EIA(s), EMP(s), RPF and RAP(s). The Borrower shall not assign, amend, abrogate or waive the EMF, EIA(s), EMP(s), RPF and/or RAP(s) or any provision thereof, without the prior approval of the Bank.

2. For purposes of Part A of the Project, the Borrower shall: (a) prior to the issuance of the bidding documents for the works contract for each segment of the Baku-Shamakhi road, prepare and submit to the Bank for its approval: (i) the proposed design and site for said works and, the related site-specific EIA and/or EMP in form and substance satisfactory to the Bank; and (ii) the draft contract for said works to ensure that the provisions of said site-specific EIA and/or EMP are adequately included in said contract; (b) prior to the signing of the contract for said works, prepare and submit to the Bank for its approval the site-specific land acquisition and/or resettlement action plan(s) (RAP(s)) in form and substance satisfactory to the Bank; and (c) prior to the commencement of the works, ensure that the owners and users of the land where said works are to be implemented are fully compensated in accordance with the provisions of the RAP(s).

3. The Borrower shall: (a) ensure that all activities undertaken for the purpose of carrying out of the Project comply with environmental standards and guidelines satisfactory to the Bank; (b) ensure that the selection of any road section under Part A of the Project is done in accordance with the provisions of the EMF; (c) ensure the complete implementation of the EMPs in a manner acceptable to the Bank, including all necessary measures to minimize and to mitigate any adverse environmental impacts caused by the implementation of the Project; and (d) maintain the ARS's environmental management office with competent staff in adequate numbers and with such responsibilities and functions acceptable to the Bank as shall enable the ARS to manage, coordinate and monitor the implementation of the EMPs.

4. The Borrower shall: (a) ensure that the ARS prepares RAPs according to the RPF; (b) maintain or cause to be maintained by ARS, and publicize or cause to be publicized by ARS, the availability of, grievance procedures to hear and determine fairly and in good faith, in accordance with the RPF, all complaints raised in relation to the implementation of the RAPs by those being resettled (as that term is defined in the RAP) or by those in host communities who are adversely affected by the implementation of the RPF, and take all measures necessary to implement the determinations made under such grievance procedures; (c) through the ARS, employ a resettlement expert, satisfactory to the Bank, to conduct an ex post review of the implementation of the RAPs; (d) through the ARS, furnish promptly to the Bank the findings and recommendations for follow up action resulting from each such review; and (e) through the ARS, implement all such recommendations for follow up action as are agreed with the Bank.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

2. The Borrower shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about October 1, 2012, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 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.

3. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall cause ARS to prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall cause ARS to have the Project Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	National Competitive Bidding, subject to the following additional provisions:
(i)	there shall be no eligibility restrictions based on nationality of bidder;
(ii)	pre-qualification shall not be used for simple works procurement and shall be conducted only for large works contracts;

Procurement Method	
(iii)	entities in which the State or a State official owns a shareholding of whatever size shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and they operate under commercial law;
(iv)	no national preferences may be applied on the basis of the origin of products or labor;
(v)	joint venture partners shall be jointly and severally liable for their obligations;
(vi)	no “participation fee” shall be required of bidders for the purchase of bidding documents. The only charge shall be equivalent to the cost of producing (copying) the bidding documents;
(vii)	in the evaluation of bids, bids may not be rejected where they differ substantially from the estimated prices calculated by the procuring entity, except where the bid prices exceed the available budget;
(viii)	rebidding shall not be carried out without prior approval of the Bank;
(ix)	works contracts of more than eighteen (18) months’ duration shall include appropriate price adjustment provisions; and
(x)	prior approval of the Bank shall be required for any modification in the contract scope and conditions during implementation; and
(xi)	standard bidding documents approved by the Bank shall be used.
(b) Shopping	
(c) Direct Contracting	

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-based Selection
(b)	Least Cost Selection
(c)	Selection based on Consultants' Qualifications
(d)	Single-Source Selection
(e)	Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (Expressed in USD)	Percentage of Expenditures to be Financed (Net of VAT)
(1) Goods, Works, Consultants' Services including Audit, Training and Incremental Operating Costs for the Project	171,171,000	80%
(2) Front-end Fee	429,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07 (c) of this Agreement
TOTAL AMOUNT	<u>171,600,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is March 31, 2015.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each June 15 and December 15 Beginning June 15, 2014 through June 15, 2026	3.85%
On December 15, 2026	3.75%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the

second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “ARS” means the “Azerroadservice” Open Joint-stock Company, or Azerbaijan Road Service, which is also the Project Implementing Entity, established as an Open Joint-stock Company under the subordination of the Ministry of Transport by virtue of the Presidential Decree on the Measures to Improve Management of Transport and Road Complex (Decree No. 1992), dated February 22, 2007, and Decision No. 180 of the Cabinet of Ministers dated November 15, 2007, whose responsibilities were transferred from the Road Transport Service Department LLC within the Borrower’s Ministry of Transport, which was established by the Order of the Ministry of Transport of the Borrower (Order No. 03) dated June 23, 2003.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “EIA(s)” means the Borrower’s environmental impact assessment, acceptable to the Bank consisting of inter alia: (i) a description of the site where construction activities are to be carried out under Part A of the Project and the justification for said activities; (ii) the actual or potential environmental impact of the construction activities referred to under sub-paragraph (i) above; and (iii) an environmental management plan setting forth adequate mitigating measures and systems required to monitor the implementation of the construction activities referred to under sub-paragraph (i) above and to ensure compliance of such activities with said measures with a view to limiting any actual and potential adverse environmental impact.
6. “EMF” means the Environmental Management Framework, dated November 16, 2005, outlining the procedures for the environmental screening, management, consultation and disclosure related to the selection of the road sections under the Project.
7. “EMP(s)” means the Borrower’s site specific environmental management plan(s), acceptable to the Bank prepared or to be prepared by the Borrower during the Project implementation in accordance with the EMF and approved by

the Bank, describing environmental mitigation, monitoring and institutional measures for selected road sections under the Project.

8. “Financing Agreement” means the agreement between the Borrower and the Association for the Project, of the same date as this Agreement; as such agreement may be amended from time to time. “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.
9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
10. “Incremental Operating Costs” means the incremental expenses incurred by the PIU on account of reasonable and necessary activities directly related to the Project implementation, management and monitoring, including office supplies, travel and salaries, but excluding the salaries of the civil servants, and any other expenditures that may be agreed upon by the Bank.
11. “Manat” means the currency of the Borrower.
12. “Ministry of Finance” means the Ministry of Finance of the Borrower or any successor or successors thereto.
13. “Ministry of Transport” means the Ministry of Transport of the Borrower or any successor or successors thereto.
14. “Operational Manual” means the operational manual for the Project adopted by the Borrower and ARS acceptable to the Bank, outlining, *inter alia*, the institutional, disbursement, procurement, and environmental and social management arrangements for the implementation of the Project, as the same may be amended from time to time with approval of the Bank, and such term includes any schedules to the Operational Manual.
15. “PIU” means the Project Implementation Unit as established by the Borrower’s internal order (Order No. 59k) dated August 14, 2003 within the ARS.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
17. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 6, 2010 and referred to in paragraph 1.16 of the Procurement

Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

18. "Project Account" means the project account used for the Borrower's counterpart financing for the Project, referred to in Section 3.03 of this Agreement.
19. "RAP(s)" means the resettlement action plan(s) to be prepared by the Borrower for selected road sections under Part A of the Project, setting out, inter alia, the principles and objectives of the RAP, the affected persons' eligibility criteria, compensation, assistance and rehabilitation entitlements and procedures, as well as the monitoring and reporting arrangements in conformity with the RPF.
20. "RPF" means the Resettlement Policy Framework, dated February 5, 2010, defining the modalities for land acquisition, resettlement and rehabilitation of displaced persons under Part A of the Project and describing the policies, procedures, plans and actions (including the resettlement action plan), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the Bank.
21. "Subsidiary Agreement" means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to the ARS.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

"Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association ("Preparation Advance"), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance."

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (l) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”