

CONFORMED COPY

Credit Number 3109-1 AZ
(Amendment)

Agreement Amending Development Credit Agreement

(Pilot Reconstruction Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 9, 1999

CREDIT NUMBER 3109-1 AZ
(Amendment)

AGREEMENT AMENDING DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 9, 1999, 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 (Pilot Reconstruction Project) dated August 7, 1998 (the Development Credit Agreement) for the purpose of assisting in the financing of the project described in Schedule 2 to the Development Credit Agreement (the Project);

(B) the Borrower has requested the Association to provide additional assistance towards the financing of (a) micro-projects to support the rehabilitation of small-scale infrastructure; (b) support for micro-enterprises; and (c) institutional support for the Social Fund for the Development of Internally Displaced Persons (SFDP) by increasing the amount made available under the Development Credit Agreement by an amount in various currencies equivalent to seven million four hundred thousand Special Drawing Rights (SDR 7,400,000); 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 the Amending Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Amendments of the Development Credit Agreement

Section 1.01. Section 1.02 of the Development Credit Agreement is amended by addition of a new Subsection (2) as follows:

"(z) 'Amending Agreement' means this agreement amending the Development Credit Agreement."

Section 1.02. 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 twenty-two million three hundred thousand Special Drawing Rights (SDR 22,300,000), being the sum of withdrawals of the proceeds of the Credit, with each withdrawal valued by the Association as of the date of such withdrawal. The Credit shall be in two tranches, the first tranche being an amount in various currencies equivalent to fourteen million nine hundred thousand Special Drawing Rights (SDR 14,900,000) (the First Tranche) and the second tranche being an amount in various currencies equivalent to seven million four hundred thousand Special Drawing Rights (SDR 7,400,000)."

Section 1.03. In Section 2.02 of the Development Credit Agreement, the following new paragraph (c) is added:

"(c) Except as the Borrower and the Association shall otherwise agree, all amounts withdrawn from the Credit Account, or made subject to a special commitment pursuant to Section 5.02 of the General Conditions, shall initially be charged against the First Tranche until that tranche has been exhausted, and shall thereafter be charged against the Second Tranche."

Section 1.04. In Section 2.03 of the Development Credit Agreement, the Closing Date is amended to read March 31, 2003.

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

"; provided, however, that the commitment charge on the Second Tranche shall accrue from a date sixty (60) days after the date of the Amending Agreement."

Section 1.06. Section 3.01 of the Development Credit Agreement is amended to read as follows:

"Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end, shall carry Part G of the Project through SFDI with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial and environmental practices, and shall provide to SFDI promptly as needed, the funds, facilities, services and other resources required for Part G of the Project.

(b) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower 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.

(c) The Borrower shall make available as a grant the proceeds of the First Tranche 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), on terms and conditions which shall have been approved by the Association.

(d) 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 1.07. Section 3.02 of the Development Credit Agreement is amended to read as follows:

"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 G 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 1.08. Section 3.10 of the Development Credit Agreement is amended to read: "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 Parts C, D, E and F of the Project shall be carried out by ARRA pursuant to Section 2.03 of the Project Agreement."

Section 1.09. A new Section 3.11 is added to the Development Credit Agreement as follows:

"Section 3.11 (a) the Borrower shall, with the assistance from ARRA, set up a financial management system for SFDI, satisfactory to the Association; (b) provide training to SFDI staff in the Association's procurement procedures with assistance from ARRA; and (c) to the extent possible, the senior executive positions of SFDI shall be staffed with personnel from ARRA."

Section 1.10. A new Section 3.12 is added in the Development Credit Agreement as follows:

"Section 3.12. The Borrower shall employ an environmental specialist to ensure that the screening, evaluation and monitoring of all micro-projects under Part G of the Project are implemented in accordance with the Guidelines of the Bank."

Section 1.11. Section 4.01 of the Development Credit Agreement is revised to read as follows:

"Section 4.01. (a) the Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part G of the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) 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 six months after the end of each such year, the report of such audit by such 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 said records and accounts and the audit thereof as the Association shall 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 expenditures, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 1.12. Schedule 1 to the Development Credit Agreement is revised as per Annex to this Amending Agreement.

Section 1.13. In Schedule 2 to the Development Credit Agreement, a new paragraph G is added as follows, and the Project Completion Date is revised to "September 30, 2002";

"Part G.

1. Carrying out micro-projects to support the rehabilitation of small-scale infrastructure.
2. Provision of support for micro-enterprises through credits for setting up small-scale businesses, and training and technical assistance to the micro-entrepreneurs.
3. Provision of institutional support to the Social Fund for the Development of Internally displaced persons in Azerbaijan (SFDI) through acquisition of equipment, provision of vehicles; provision of operating costs, provision of training and technical assistance for monitoring and evaluation".

Section 1.14. In Schedule 3 to the Development Credit Agreement, paragraph 1 (a) is amended to read:

"(a) The term "eligible categories" means Categories (1), (2), (3), (4), (5), (8) and (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement".

ARTICLE III

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; (b) the Board of Directors for SFDI has been established; (c) The Managing Director for SFDI has been appointed; (d) Operational Manual for SFDI has been furnished to the Association; and (e) an integrated accounting system (including MIS) satisfactory to the Association has been set-up and a technical advisor has been appointed.

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 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.

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

AZERBAIJAN REPUBLIC

By /s/ Ali Shamil oglu Hasanov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tevfik Yaprak

Acting Regional Vice President
Europe and Central Asia Region

ANNEX

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:

| Category | Amount of the Credit (Second Tranche Allocated (expressed in SDR Equivalent) | Amount of the Credit (First Tranche Allocated (expressed in SDR Equivalent) | % of Expenditures to be Financed |
|----------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| (1) Civil works | 5,200,000 | 5,270,000 | 100% |
| (2) Consultants' services and training | 300,000 | 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 expenditures (ex-factory cost) and | 150,000 | 4,530,000 | 100% of foreign expenditures, 100% of local expenditures for other items procured locally |
| (6) Refunding of Project Preparation Advance | -- | 1,120,000 | Amounts due pursuant to Section 2.02 (c) of this Agreement |
| (7) Micro-enterprise | 1,550,000 | -- | 100% |
| (8) Operating costs | 200,000 | -- | 75% |
| (9) Unallocated | -- | 1,890,000 | |

TOTAL 7,400,000 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;

(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; and

(d) "operating costs" means office equipment for SFDI.

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; (d) for services for individual consultants under contracts costing less than \$50,000 equivalent; and (e) all operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

