

CONFORMED COPY

CREDIT NUMBER 3390 AZ

Development Credit Agreement

(Rehabilitation and Completion of Irrigation
and Drainage Infrastructure Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 24, 2000

CREDIT NUMBER 3390 AZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 24, 2000, between AZERBAIJAN REPUBLIC (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through October 6, 1999), 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 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." and

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

"Except as the Borrower and the Association 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 Association, 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) "Eligible Categories" means categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(c) "EMP" means the environmental management plan dated March 2000, agreed between the Borrower and the Association and included in the environmental impact assessment report;

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

(e) "MOF" means the Ministry of Finance of the Borrower;

(f) "PIU" means the project implementation unit, established within SAIC and referred to in Section 5.01(c) and paragraph 1 of Schedule 4 to this Agreement;

(g) "Project Account" means the account to be opened pursuant to Section 5.01(d) of this Agreement;

(h) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(i) "SAIC" means the State Amelioration and Irrigation Committee of the Borrower or any successor thereto acceptable to the Association;

(j) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(k) "State Committee on Ecology" means the State Committee on Ecology of the Borrower;

(l) "Steering Commission" means the steering commission of the Borrower referred to in Section 5.01(b) and paragraph 2 of Schedule 4 to this Agreement; and

(m) "Sub-project" means either a sub-project for the rehabilitation of

Samur-Apsheron Canal System or a sub-project for completion of the Main Mill-Mugan Collector, selected and carried out by the Borrower in accordance with the provisions of paragraph 3 of Schedule 4 and Schedule 5 to this 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 thirty one million seven hundred thousand Special Drawing Rights (SDR 31,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) 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 cancelled.

Section 2.03. The Closing Date shall be May 31, 2006, 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 June 15 and December 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 June 15 and December 15, commencing December 15, 2010 and ending June 15, 2035. Each installment to and including the installment payable on June 15, 2020, 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 (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

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

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

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

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

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter at all times maintain, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such financial statements, records and accounts and a report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during each fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than June 30, 2001, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the

Project for the six-month period following the period covered by said report, (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the independent auditors referred to in Section 4.01 (b) (i) of this Agreement, satisfactory to the Association, shall have been appointed;

(b) the members of the Steering Commission acceptable to the Association, shall have been appointed;

(c) the PIU shall have been established and its staff shall have been appointed with qualifications and under terms of reference satisfactory to the Association; and

(d) the Project Account shall have been opened by the Borrower in a local commercial bank satisfactory to the Association and an initial deposit of an amount in Manat equivalent to \$130,000 shall have been made by the Borrower into such account.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
83 Samed Vurgun Street
Baku 370006
Azerbaijan Republic

Telex: Fax:

142116 994-12-98-5381
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: Fax:

248423 (MCI) or (202) 477-6391
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 the city of Baku, Azerbaijan Republic, as of the day and year first above written.

AZERBAIJAN REPUBLIC

By /s/ Avaz Alekberov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Rufiz Vakhid Chirag-Zade

Acting Regional Vice President
Europe and Central Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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
(1) Civil works	25,300,000	90%
(2) Goods	150,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local expenditures for other items procured locally

(3)	Consultants' services and training	3,770,000	100%	
(4)	Incremental operating costs	380,000	70%	
(5)	Refunding of Project Preparation Advance	600,000		Amounts due Pursuant to Section 2.02 (b) of this Agreement
(6)	Unallocated	1,500,000		
	TOTAL	31,700,000		

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 "incremental operating costs" means the incremental expenses incurred by the PIU on account of Project implementation, management and monitoring, including office supplies and travel.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures in respect of Category (1) set forth in the table in paragraph 1 above, unless the Sub-project in respect of which disbursement is sought has been approved by the Association in accordance with the provisions of Schedule 5 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for goods not exceeding \$100,000 equivalent each; (b) contracts for works not exceeding \$200,000 equivalent each; (c) contracts for employment of consulting firms not exceeding \$100,000 equivalent each; (d) contracts for employment of individual consultants not exceeding \$25,000 equivalent each; (e) training; and (f) incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall 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.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement, and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible

Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account or, (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; 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 equal or exceed the equivalent of SDR 4,000,000.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, 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 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of this Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$4,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) prevent the decline in supplying water

to Baku; (b) eliminate further deterioration of the supply of irrigation water to Samur-Apsheron Canal System; and (c) improve drainage and reduce water logging and salinity for Main Mill-Mugan Collector area.

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 objective:

Part A: Rehabilitation and Completion of Irrigation and Drainage Infrastructure

1. Rehabilitation of the Samur-Apsheron Canal System, including:

(a) rehabilitation of the headworks, including the replacement of deteriorated gates and lifting gear;

(b) repair of the concrete lining of the first 50 km of the main canal, including the associated structures;

(c) rehabilitation of sedimentation works;

(d) rehabilitation of the inter-farm canals;

(e) canal enlargement; and

(f) provision of technical assistance to support design and construction supervision services.

2. Completion of the Main Mill-Mugan Collector System, including:

(a) completion of the siphon underpass under the Araz River;

(b) completion of the remaining 31 km of the main collector;

(c) construction of necessary bridges, aqueducts and service road;

(d) reconstruction and rehabilitation of inter-farm collectors; and

(e) provision of technical assistance to support design and supervision services.

Part B: Institutional Strengthening

1. Strengthening the institutional capacity of Samur-Apsheron Canal management through provision of technical assistance.

2. Provision of technical assistance to develop an irrigation sector strategy.

3. Provision of training and study tours to the PIU and SAIC staff on project administration and modern designs for irrigation and drainage systems.

4. Provision of technical assistance for the preparation of a comprehensive feasibility study to review the technical, environmental, social and economic viability of the expansion in capacity of the Samur-Apsheron Canal System.

Part C: Project Management

Provision of goods, consultants' services and incremental operating costs to the PIU to improve its project implementation capacity, including its construction supervision, engineering design, procurement, monitoring and evaluation and financial

management capacity.

The Project is expected to be completed by November 30, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 and revised in January and August 1996, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$126,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$55,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$49,500 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation

shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) each contract awarded in accordance with the provisions of Section I, Part B of this Schedule; (ii) the first two contracts awarded in accordance with the provision of Section I, Part C.1 of this Schedule; and (iii) the first contracts awarded in accordance with the provisions of Section I, Part C.2 and Part C.3 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount not to exceed \$440,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

2. Least-Cost Selection

Services for audits may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Single Source Selection

Services for improvement of financial management capacity may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

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

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the qualifications, experience, terms of reference, and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given. All terms of reference for the employment of individual consultants estimated to cost less than the equivalent of \$25,000 shall also be subject to the Association's prior review.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall, until the completion of the Project, maintain the PIU and shall ensure that the PIU is 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 Association.

2. Throughout the implementation of the Project, the Borrower shall maintain, in a manner and under terms of reference satisfactory to the Association, a Steering Commission, composed by the Deputy Prime Minister, the Chairman of SAIC, Deputy Minister of the Ministry of Finance, the Chairman or a representative authorized by the Chairman of the State Committee on Ecology, Deputy Minister of the Ministry of Agriculture, Chairman of the Apsheron Water Supply Company, and the PIU director, as its secretary. The Steering Commission will be responsible for reviewing the progress of Project implementation and resolving any general issues related to inter-agency coordination within the framework of the Project.

3. The Borrower shall: (a) select the Sub-projects in accordance with the

procedures and eligibility criteria set forth in Parts A and B of Schedule 5 to this Agreement; and (b) carry out the Sub-projects in accordance with the terms and conditions set forth in Part C of Schedule 5 to this Agreement.

4. The Borrower shall maintain the Project Account until the completion of the Project and deposit counterpart funds into such account in such intervals to ensure satisfactory implementation of the Project.

5. The Borrower shall: (a) not later than September 30 of each year, prepare and submit to the Association, for its review, a work program and budget for activities to be carried out during the following fiscal year; and (b) immediately thereafter, finalize said program taking into consideration the Association's comments thereon.

6. The Borrower shall:

(a) prepare and furnish to the Association, commencing on March 31, 2001, quarterly reports on the progress in the implementation of the Project; and

(b) take all measures necessary, including the close cooperation with the State Committee on Ecology and other environmental institutions, for carrying out of the EMP, and include adequate information on carrying out of such measures in the reports referred to in above sub-paragraph (a) of this paragraph.

7. The Borrower shall: (a) not later than August 31 of each year, submit to the Association, before submitting to MOF, for its review, the draft annual operational and maintenance budget adequate for proper operation and maintenance of Samur-Apsheron Canal System and Main Mill-Mugan Collector System satisfactory to the Association; and (b) finalize said draft operational and maintenance budget proposal taking into consideration the Association's comments thereon.

8. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by June 30, 2003, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Procedures, Eligibility Criteria, and Terms and Conditions Applicable to Sub-projects

Part A: Procedures

1. The Borrower shall, through the PIU and prior to the selection of each Sub-project, submit the proposal for that Sub-project to the Association for its review and approval.

2. In submitting a proposal for a Sub-project to the Association for its review and approval, the PIU shall prepare and furnish to the Association: (a) a design report

satisfactory to the Association; and (b) such other information as the Association shall reasonably request. The design report shall contain: (a) a description of design alternatives considered; (b) a description of the proposed Sub-project; (c) design criteria and technical details of the Sub-project; and (d) bill of quantities and cost estimates for the Sub-project.

Part B: Eligibility Criteria

1. Sub-projects shall be selected in accordance with criteria satisfactory to the Association, including the criteria set forth below.

2. In selecting a Sub-project the Borrower, through the PIU, shall ensure that:

(a) the Sub-project shall seek to rehabilitate an existing irrigation infrastructure, with no irrigation of new areas or expansion of the existing irrigation infrastructure;

(b) depending on the assessment of the potential impact, if any, of the Sub-project on other riparian countries, the Sub-project shall be in conformity with policies and procedures acceptable to the Association;

(c) the feasibility study under Part B.4 of the Project has been completed in a manner satisfactory to the Association prior to commencement of canal enlargement under Part A.1 (e) of the Project; and

(d) no private land will be affected by a Sub-project unless procedures for compensation and replacement have been reviewed and found satisfactory by the Association.

3. In addition to the criteria listed in paragraph 2 of Part B above, the Borrower, through the PIU, shall ensure for each Sub-project that:

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

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

(c) the Sub-project shall be in conformity with all local and national environmental standards and requirements, and its design and implementation shall provide for adequate mitigation measures to ensure full compliance with local and national health, environmental and safety standards and requirements.

Part C: Terms and Conditions

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

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



