

CONFORMED COPY

LOAN NUMBER 7549-AZ

Loan Agreement

**(Absheron Rehabilitation Program II:
Integrated Solid Waste Management Project)**

between

REPUBLIC OF AZERBAIJAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 20, 2009

LOAN NUMBER 7549-AZ

LOAN AGREEMENT

Agreement dated May 20, 2009, 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 twenty-nine million five hundred thousand Dollars (\$29,500,000), 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 Fixed 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 May 15 and November 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 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.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the PMT in accordance with the provisions of Article V of the General Conditions.
- 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 Project Operational Manual and the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:

- (a) Presidential Decree No. 1697, dated September 28, 2006, establishing the Borrower's Comprehensive Action Plan on Improving Environmental Situation in Azerbaijan for 2006-2010, has been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.
- (b) The Project Operational Manual has been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.
- (c) Presidential Decree No. 504, dated December 28, 2006, approving the Charter of the Ministry of Economic Development of the Borrower, has been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.

4.02. The Additional Event of Acceleration consists of the following:

Any event specified in paragraphs (a) through (c) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) The Borrower has adopted the Project Operational Manual, acceptable to the Bank.
- (b) The Borrower has appointed the procurement and financial management specialists acceptable to the Bank.
- (c) The Borrower has put in place the financial management system acceptable to the Bank.

5.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the 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

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/ Shahin Abdulla oglu Mustafayev
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Gregory Jedrzejczak
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the reform of the Greater Baku solid waste collection and disposal operations into an effective and sustainable system.

The Project consists of the following parts:

Component A: Institutional Reform, Capacity Building and Project Management

1. Finalization of a strategic plan for the sector, which includes: (a) analytical work to assess the existing systems, institutional reform, sector financing, funding and cash flow management; (b) development of legal framework and institutional structure; (c) development of roll-out plans for waste collection services and involvement of private sector; (d) tariff and tariff collection reforms; (e) development of accounting and data systems; and (f) strategy for dealing with medical and hazardous waste, planning for rehabilitation of disposal sites and closure of informal dumps.
2. Provision of capacity building and management support programs for practical management and operational skills in solid waste collection and disposal.
3. Provision of goods and consultants' services for public awareness campaigns and communication program.
4. Strengthening of the management capacity of the PMT to monitor and administer implementation of the Project.

Component B: Balakhani Landfill Rehabilitation and Management

Improvement of the capacity of an existing landfill for continuation of disposal activities in an operationally and environmentally sound manner.

Component C: Closure and Management of Informal Dumps

Closure and cleanup of informal dumps through removal and the transportation of waste from all wild dumps, as well as the improvement of management of formal sites, in order to minimize the negative environmental effects associated with informal or non-sanitary waste disposal.

Component D: Urgent Collection Equipment

Provision of goods in order to increase the service quality and availability of solid waste collection coverage and service efficiency.

Component E: Technical Preparation of Future Investment

Preparation of feasibility studies and environmental impact assessments needed to develop new landfill capacity and introduce transfer stations to maintain an effective enhanced waste collection and disposal system.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall, through the Ministry of Economic Development of the Borrower, maintain, throughout Project implementation, the PMT headed by a project manager and with staff, resources and under terms of reference satisfactory to the Bank.
2. The Borrower shall, until the completion of the Project, cause to maintain the Working Group, which shall meet at least quarterly and whose composition and functions satisfactory to the Bank.

B. Anti-Corruption

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

C. Safeguards

1. The Borrower shall ensure that all measures necessary for the carrying out of the EMF, EMP and RPF shall be taken in a timely manner.
2. The Borrower shall ensure that the RAPs: (a) shall be prepared in a manner satisfactory to the Bank in accordance with the RPF prior to commencement of any activities for the areas where physical relocation, land acquisition and/or loss of income due to the Project activities have been identified, and; (b) shall be carried out in a timely manner, satisfactory to 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 quarter, 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: (a) prepare and furnish to the Bank, on or about September 30, 2010, a report 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 (b) review with the Bank, by October 30, 2010, or such later date as the Bank shall request, the report referred to in paragraph (a) of this Section, 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 Bank's views on the matter.

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. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report 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 have its 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 (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project 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: <ul style="list-style-type: none">(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;(ii) 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 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;(vi) 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.
(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.
- 3.

Procurement Method
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on Consultants' Qualifications
(e) Single-source Selection
(f) 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 (excluding VAT)
(1) Goods, works, consultants’ services, training and incremental operating costs for the Components A, B, C and E of the Project	29,426,250	100%
(2) Front-end Fee	73,750	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>29,500,000</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 September 30, 2013.

Section V. Other Undertakings

1. Unless otherwise agreed with the Bank, the Borrower shall ensure that a technical design has been approved by the Bank prior to the commencement of any activities involving works for each specific site under Component B of the Project.
2. Unless otherwise agreed with the Bank, no activities under Component A.2 shall commence prior to the establishment of a joint-stock company for solid waste management, with its own legal status and institutional arrangements.

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)
November 15, 2012	2.42%
May 15, 2013	2.50%
November 15, 2013	2.59%
May 15, 2014	2.68%
November 15, 2014	2.78%
May 15, 2015	2.87%
November 15, 2015	2.97%
May 15, 2016	3.08%
November 15, 2016	3.19%
May 15, 2017	3.30%
November 15, 2017	3.41%
May 15, 2018	3.53%
November 15, 2018	3.66%
May 15, 2019	3.78%
November 15, 2019	3.92%
May 15, 2020	4.05%
November 15, 2020	4.20%
May 15, 2021	4.34%
November 15, 2021	4.49%
May 15, 2022	4.65%
November 15, 2022	4.81%
May 15, 2023	4.98%
November 15, 2023	5.16%
May 15, 2024	5.34%
November 15, 2024	5.52%
May 15, 2025	5.78%

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

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. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.
3. “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.
4. “EMF” means the Environmental Management Framework, dated February 22, 2008, setting forth the framework of environmental management to be carried out under Component C of the Project in order to mitigate any adverse impact to the environment.
5. “EMP” means the Environmental Management Plan, dated February 20, 2008, setting forth measures to mitigate any adverse impact to the environment for Component B of the Project.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
7. “Incremental Operating Costs” means incremental operating and maintenance costs incurred by the Borrower on account of management of Project implementation for communications, utilities including electricity, bank charges, printing and publications, office rent maintenance, repair and supplies, office security systems, vehicle operation, fuel and maintenance, salaries of the Borrower’s staff employed for the purpose of the Project, excluding those who are civil servants, eligible social charges, transportation and field trip expenses, insurance for office equipment and vehicle, all for the purpose of Project management, as such other expenditures as may be agreed upon by the Bank.
8. “PMT” means the Project Management Team within the Ministry of Economic Development of the Borrower, established through the Ministerial Decree No. 653, dated November 14, 2007, or any successor thereto, responsible for the day-to-day management and monitoring of the Project.

9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
10. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 29, 2008 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.
11. “Project Operational Manual” means the implementation manual referred to in Section 5.01 (a) of this Agreement, setting forth the operational and administrative procedures for the implementation of the Project and including all environmental and social safeguard frameworks, implementation schedule and key terms of reference, as well as the Procurement Plan.
12. “RAP” means the Resettlement Action Plan prepared by the Borrower as implementing recommendation of the RPF (as hereinafter defined) under the Project.
13. “RPF” means the Resettlement Policy Framework, dated April 2, 2008, defining the modalities for land acquisition, resettlement and rehabilitation of displaced persons under Components B and C of the Project.
14. “Training” means expenses incurred by the Borrower in connection with carrying out training activities under the Project, including travel costs and per diem for local trainees and trainers, study tours and workshops, rental of facilities and equipment and training materials and related supplies.
15. “VAT” means the value-added tax, levied in accordance with the legislation of the Borrower.
16. “Working Group” means the inter-agency group established by the Ministry of Economic Development of the Borrower through the Ministerial Order of the Ministry of Economic Development (Order No. 653), dated November 14, 2007, or any successor thereto, whose compositions and the duration of its mandate may be changed from time to time with the agreement between the Borrower and the Bank, in order to coordinate among stakeholders, including the Ministry of Industry and Energy of the Borrower, the Ministry of the Environment and Natural Resources of the Borrower, Baku City Executive Authority.