

CONFORMED COPY

CREDIT NUMBER 3107 AZ

Development Credit Agreement

(Urgent Environmental Investment Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 1998

CREDIT NUMBER 3107 AZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 7, 1998, between AZERBAIJAN REPUBLIC (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Borrower intends to contract from the United Kingdom Know How Fund (UK Know How Fund) a grant (UK Know How Grant) in an amount of three hundred fifty thousand pounds sterling (£350,000) to assist in financing Part D of the Project on the terms and conditions set forth in an agreement (the UK Know How Fund Grant Agreement) to be entered into between the Borrower and the UK Know How Fund;

(C) the Borrower intends to contract from the Government of Japan a grant (PHRD Grant) in an amount of eight hundred thousand Dollars (US\$800,000) to assist in the financing of Part D of the Project on the terms and conditions to be set forth in a letter of agreement (the PHRD Grant Letter of Agreement) to be entered into between the Borrower and the Association, the administrator of PHRD Grant funds for the Government of Japan; 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 December 2, 1997, 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 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries.

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

"Except as the Association and the Borrower 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) "Azerbaijan" means the Borrower's State Concern "Azerbaijan," or any successor thereto;

(b) "CIU" means the implementation unit established within the Department of Foreign Investments of SOCAR, pursuant to Order No. 62 issued by the SOCAR on April 19, 1995, or any successor thereto;

(c) "Committee of Ecology" means the Borrower's State Committee of Ecology, or any successor thereto;

(d) "EMP" means the environmental mitigation plan for the Project, adopted by the Committee of Ecology on May 28, 1998, as the same may be amended from time to time;

(e) "Part A Implementation Agreement" means the agreement to be entered into between the Borrower and Sturgeon Hatchery JSC pursuant to Section 3.02 (a) (ii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Part A Implementation Agreement, as the same may be amended from time to time;

(f) "Part C Implementation Agreement" means the agreement between the Borrower and SOCAR related to the implementation of Part C of the Project, and referred to in Section 3.02 (b) (i) of this Agreement, as the same may be amended from time to time;

(g) "PIU" means the project implementation unit established within the Committee of Ecology pursuant to Project Steering Committee Protocol No. 09/7-63, issued on November 8, 1996, and referred to in Section 3.03 of this Agreement, or any

successor thereto;

(h) "Project Steering Committee" means the inter-agency committee established pursuant to Government of Azerbaijan Resolution No. 169, issued on October 10, 1996, whose members include representatives of the Borrower's Cabinet of Ministers, Ministry of Finance, Ministry of Economy, Committee of Ecology, SOCAR, Azerbalig and the Borrower's Committee of Geology, and representatives of the Naftchala and Sumgait local administrations, or any successor thereto;

(i) "SOCAR" means the State Oil Company of the Republic of Azerbaijan, established by Presidential Decree No. 200, issued on September 13, 1992, as amended, or any successor thereto;

(j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(k) "Sturgeon Hatchery JSC" means the joint stock company to be established, registered, and owned and operated by the Borrower in accordance with the Borrower's applicable laws and regulations, and referred to in Section 3.02 (a) (i) of this Agreement, or any successor thereto.

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 fourteen million nine hundred thousand Special Drawing Rights (SDR 14,900,000).

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, services and incremental operating costs required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, 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. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003, 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 March 15 and September 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 March 15 and September 15, commencing September 15, 2008, and ending March 15, 2033. Each installment to and including the installment payable on March 15, 2018, 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, without any limitation or restriction upon any of its other obligations under this Agreement, carry out Parts A.1, A.2, B, D, and E of the Project through the Project Steering Committee and Committee of Ecology, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, as well as in conformity with the provisions of the EMP, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall, without any limitation or restriction upon any of its other obligations under this Agreement, cause the Sturgeon Hatchery JSC to carry out

Part A.3 of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Sturgeon Hatchery JSC 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, without any limitation or restriction upon any of its other obligations under this Agreement, cause the SOCAR to carry out Part C of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, as well as in conformity with the provisions of the EMP, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the SOCAR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) For the purposes of Part A of the Project, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, without any limitation or restriction upon any of its other obligations under this Agreement:

- (i) duly establish and register, by December 31, 1998, in a manner satisfactory to the Bank, a joint stock company (the Sturgeon Hatchery JSC), whose primary task shall be to operate and manage the hatchery to be constructed and financed under Part A.1 of this Project in an environmentally sustainable and financially sound manner;
- (ii) under a subsidiary agreement to be entered into between the Borrower and Sturgeon Hatchery JSC (the Part A Implementation Agreement), and on terms and conditions which shall have been approved by the Association, assign to the Sturgeon Hatchery JSC the responsibility to operate and manage the hatchery to be constructed and financed under Part A.1 of this Project in an environmentally sustainable and financially sound manner; and
- (iii) exercise its rights under the Part A Implementation 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 Part A Implementation Agreement or any provision thereof.

(b) For the purposes of Part C of the Project, and except as the Borrower and the Association shall otherwise agree, the Borrower shall, without any limitation or restriction upon any of its other obligations under this Agreement:

- (i) under a subsidiary agreement to be entered into between the Borrower and the SOCAR (the Part C Implementation Agreement), and on terms and conditions which shall have been approved by the Association, assign to the SOCAR, and in particular the CIU, the responsibility to implement Part C of the Project in accordance with the provisions of paragraph 5 of the Implementation Program set forth in Schedule 4 to this Agreement; and
- (ii) exercise its rights under the Part C Implementation 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 Part C Implementation Agreement or any provision thereof.

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall, until the completion of the Project, maintain within the Committee of Ecology a project implementation unit (PIU), and shall ensure that the PIU is staffed at all times by personnel with qualifications and under terms of reference, and functions at all time in accordance with procedures necessary and

appropriate for the carrying out of the Project, and satisfactory to the Association.

Section 3.04. Without limitation upon the provisions of Section 3.01 of this Agreement 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 3.05. Except as the Association shall otherwise agree, procurement of the 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 3.06. The Borrower shall undertake all measures necessary and appropriate to ensure that by December 31, 1998, the Borrower has full legal title to and ownership of land required for Parts A.1 and B of the Project.

Section 3.07. The Borrower shall undertake all necessary and appropriate measures, satisfactory to the Association, to ensure that by July 31, 1999, the chlorine gas emissions from the Surface Active Substances plant of the Borrower that affect or threaten to affect the safety and health of workers implementing Part B of the Project have ceased, and thereby permit a complete and safe removal of the mercury contaminated material from its current storage area at the plant site, and shall furnish to the Association satisfactory evidence confirming the above undertakings.

Section 3.08. 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 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 the Project of the departments or agencies of the Borrower responsible for carrying out 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 four (4) months after the end of each such year, the 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 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 expenditure, 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 (1) 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The UK Know How Fund Grant Agreement shall have failed to become effective by December 31, 1998, and the PHRD Grant Letter of Agreement shall have failed to become effective by December 31, 1998, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for Part D of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (b) (i) Subject to subparagraph (ii) of this paragraph (b), the right of the Borrower to withdraw the proceeds of the UK Know How Fund Grant or of the PHRD Grant made to the Borrower for the financing of Part D of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the UK Know How Fund Grant Agreement or of the PHRD Grant Letter of Agreement, providing therefor.
- (ii) Subparagraph (i) of this paragraph (b) shall not apply if: (A) the Borrower establishes to the satisfaction of the Association that such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for Part D of the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01(b) of the General Conditions, namely that the Borrower has appointed independent auditors referred to in Section 4.01 (b) (i) of this Agreement, with experience and qualifications, and under terms of reference acceptable to the Association.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
6 Samed Vurgun Street
Baku 370006
Azerbaijan Republic

Telex:

142116 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:

248423 (MCI) or
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/ A. Sharifov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ T. Yaprak

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		
(a) for Part A.1 of the Project	2,190,000)	
(b) for Part B of the Project	2,450,000)	100%
(c) for Part C of the Project	3,220,000)	
(2) Consultants' services and training:		
(a) for Part A of the Project	720,000)	
(b) for Part B of the Project	2,090,000)	100%
(c) for Part C of the Project	150,000)	
(d) for Part E of the Project	460,000)	
(3) Goods:		
(a) for Part A.1 of the Project	1,120,000)	100% of foreign expenditures,
(b) for Part B of the Project	1,040,000)	100% of foreign expenditures (ex- factory cost) and
(c) for Part C of the Project	20,000)	85% of local expenditures for other items
(d) for Part E of the Project	100,000)	procured locally
(4) Operating Costs	310,000	
(5) Unallocated	1,030,000	
TOTAL	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; and

(c) the term "Operating Costs" means the incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, vehicle operation, travel and supervision costs, training, and accounting and auditing costs, but excluding salaries of officials of the Borrower.

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;

(b) payments made for expenditures in respect of Categories (1) (a), (2) (a) and (3) (a), unless the Borrower has established and registered the Sturgeon Hatchery JSC in accordance with the provisions of Section 3.02 (a) (i) of this Agreement;

(c) payments made for expenditures in respect of Categories (1) (b), (2) (b) and (3) (b), unless evidence satisfactory to the Association has been furnished establishing that the chlorine gas emissions from the Surface Active Substances plant of the Borrower have ceased, in accordance with the provisions of Section 3.07 of this Agreement; and

(d) payments made for expenditures in respect of Categories (1) (c), (2) (c) and (3) (c), unless the Borrower has entered into the Part C Implementation Agreement in accordance with the provisions of Section 3.02 (b) (i) of 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 goods under contracts costing less than \$200,000 equivalent each, works under contracts costing less than \$500,000 equivalent each, and services under contracts costing less than \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (a) improve the Borrower's capacity to produce sturgeon fingerlings; (b) safely remove and dispose of mercury contaminated soil, building debris and other material stored in an area of the Abseron peninsula located near the Borrower's town of Sumgait, and assess the extent of mercury accumulation in the area; (c) test on shore oil clean up methodologies and practices on a pilot basis and mitigate existing pollution in an on shore oil field within fifty kilometers of the Borrower's capital city of Baku; and (d) strengthen the Borrower's institutional and regulatory capacity in the area of environmental management.

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 objectives:

Part A: Sturgeon Hatchery

1. Construction of a sturgeon hatchery located on the Kura river, through the provision of goods and works under a supply and installation contract, and services.
2. Establishment of an entity with legal, financial, and institutional capacity to operate the sturgeon hatchery in an environmentally sustainable and financially sound manner, through the provision of services.
3. Operation and management of the sturgeon hatchery referred to under paragraph 1 above by the entity referred to in paragraph 2 above, in an environmentally sustainable and financially sound manner, through the provision of funds and services.

Part B: Mercury Cleanup and Decontamination

1. Excavation and processing of mercury contaminated soil, sludge, building debris, and other materials, through the provision of goods, works, and services.
2. Construction of a new landfill for mercury contaminated materials, through the provision of goods, works, and services.
3. Excavation, transportation and storage in the new landfill of mercury

contaminated material, through the provision of goods, works, and services.

4. Environmental surveying of marine environment, soils, and human exposure to mercury contamination around the Sumgait industrial area, through the provision of goods and services.

Part C: Oil Field Environmental Mitigation

1. Undertaking a series of pilot projects designed to determine the most effective and efficient method for the treatment of oil contaminated land, through the provision of works, goods and services.

2. Clean up and restoration of oil contaminated land at the pilot test site through the provision of works, goods and services.

3. Operational and institutional support of the SOCAR's implementation capability with respect to Parts C.1 and C.2 of the Project through the provision of services and goods for CIU.

Part D: Environmental Management

Review and improvement of the Borrower's environmental management capacity, strengthening of the Committee of Ecology's institutional capacity, and strengthening of the Borrower's environmental legislative and regulatory framework, with particular emphasis on the management of hazardous waste, through the provision of services, training and goods.

Part E: Project Management and Implementation

1. Strengthening the Borrower's Project implementation and management capability, through the provision of services, training, goods, and incremental operating expenses of the PIU.

2. Preparation of the accounts and financial statements referred to in Article IV of this Agreement and audit of such accounts and financial statements, through the provision of accounting and auditing services.

* * *

The Project is expected to be completed by June 30, 2003.

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 Bank in January 1995 and revised in January and August 1996, and September 1997, 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 provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for the construction of the sturgeon hatchery under Part A.1 of the Project, to be procured under a supply and installation contract estimated to cost \$5,070,600 equivalent, shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(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. National Competitive Bidding

Goods (tanks) estimated to cost less than \$500,000 equivalent per contract, and works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$270,000 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.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$91,000 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.

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

(a) With respect to the supply and installation contract for the construction of the sturgeon hatchery under Part A.1 of the Project, each contract for goods and works procured under international competitive bidding and the first contract procured under national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract procured under the international and

national shopping procedures, the following procedures shall apply:

- (i) prior to the execution of the first contract under the international and national shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received; and
- (ii) the procedures set forth in paragraphs 2 (f) and 2 (g) 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 Bank in January 1997 and revised in September 1997, 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. Quality-based Selection

Services under Part A of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services for the operation of the sturgeon hatchery under Part A of the Project which are estimated to cost less than \$200,000 equivalent per contract, 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.

3. Individual Consultants

Services under Parts A, B and C of the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines 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.

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 \$50,000 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 \$50,000 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:

(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 June 30, 1999, 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 December 15, 1999, 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 views on the matter.

2. The Borrower shall carry out the EMP in accordance with the action plan contained therein and in a manner satisfactory to the Association, and, except as the Association shall otherwise agree, shall not amend or waive any provision of the EMP. By March 31, 1999, the Borrower shall engage a consultant, with experience and under terms of reference satisfactory to the Association, who shall, until the completion of the Project, assist the Borrower in the implementation, monitoring of the EMP, and in the preparation of reports related to or required under the EMP.

3. The Project Steering Committee shall be responsible for the overall Project

management and strategic direction, and shall specifically be responsible for the coordination of inter-ministerial issues related to the Project and its implementation.

4. The Committee of Ecology shall be responsible for the implementation of Parts A, B, D and E of the Project, including procurement and disbursement-related functions, accounting, monitoring and reporting. The PIU shall be assisted by a core team of experienced and qualified consultants, satisfactory to the Association, and shall be responsible for day-to-day implementation of Parts A, B, D and E of the Project, including technical aspects of procurement, accounting, financial management and disbursement-related activities, reporting, and monitoring and evaluation, liaison with the Borrower's agencies, the Project Steering Committee, the Association, and other parties and donor agencies.

5. The SOCAR, and through the SOCAR, the CIU, shall be responsible for the implementation of Part C of the Project, including procurement and disbursement-related functions, accounting, financial management and disbursement-related activities, reporting, and monitoring and evaluation, liaison with the Borrower's agencies, the Project Steering Committee, the Association, and other parties.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 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 be equal to or exceed the equivalent of SDR 3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c)

of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

