

CONFORMED COPY

CREDIT NUMBER 3236 AZ

Development Credit Agreement

(Agricultural Development and Credit Project)

between

AZERBAIJAN REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 4, 1999

CREDIT NUMBER 3236 AZ

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 4, 1999, between AZERBAIJAN REPUBLIC (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated May 7, 1999, from the Borrower describing its Agricultural Development and Credit Program (hereinafter the Program) designed to reform and develop the agriculture sector and declaring the Borrower's commitment to the execution of such Program;

(B) the Borrower has requested the Association's support for the execution of the Program through series of credits to assist in implementing such Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which the Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project;

(D) the Implementing Agency for Part B of the Project (as defined in Section 1.02 (1) of this Agreement) intends to assist in financing Part B of the Project in an amount of \$2,300,000 (the Cofinancing Funds) on terms and conditions set forth in an agreement to be entered into between the Borrower and the Implementing Agency for Part B of the Project (the Agency and Cofinancing Agreement); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower in support of the first phase of the Program 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."

(c) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the project, its cost and benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Credit Agreement and the accomplishment of the purposes of the Credit."

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) "Agency and Cofinancing Agreement" means the agreement entered or to be entered into between the Borrower and the Implementing Agency for Part B of the Project (defined hereafter) 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 Agency and Cofinancing Agreement;

(b) "ANB" means the National Bank of the Borrower;

(c) "CGSB" means the Competitive Grant Scheme Board of the Borrower under the MOA (defined hereafter);

(d) "Credit Cooperative" means a credit cooperative incorporated in accordance with the laws and regulations of the Borrower and licensed by ANB pursuant to Decree on Rules of Licensing and Regulating the Banking Activities of Credit Cooperatives;

(e) "Eligible Categories" means categories (1), (2), (3), (4), (5), (6) and (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) "Eligible Expenditures" means the expenditures for goods, works, services, Sub-loans (defined hereafter) and Grants (defined hereafter) referred to in Section 2.02 of this Agreement;

(g) "ESC" means the Extension Support Center of the Borrower within the MOA,

or any successor thereto acceptable to the Association;

(h) "Grant" means a grant made or proposed to be made by the Borrower in connection with Part C.3 (b) of the Project out of the proceeds of the Credit;

(i) "Grant Agreement" means the agreement to be entered into between the Borrower and each Grant recipient referred to in Section 3.03 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Grant Agreement;

(j) "Grant Guidelines" means the guidelines related to the implementation of Part C.3 (b) of the Project, referred to in Section 3.03 (a) of this Agreement, as the same may be amended from time to time;

(k) "Group of Borrowers" means a group of at least ten (10) physical persons who are rural entrepreneurs and agreed to borrow on the basis of joint and several liability;

(l) "Implementing Agency for Part B of the Project" or "Implementing Agency" means an agency selected pursuant to Section 3.02 (a) (i) of this Agreement to implement Part B of the Project;

(m) "Local Financial Intermediary" or "LFI" means any Credit Cooperative or Group of Borrowers selected pursuant to criteria set forth in paragraph B.1 of Annex 2 to Schedule 3 to this Agreement;

(n) "Manat" means the lawful currency of the Borrower;

(o) "MOA" means the Ministry of Agriculture of the Borrower;

(p) "MOE" means the Ministry of Economy of the Borrower;

(q) "Operational Guidelines" means the guidelines to be adopted by the Implementing Agency for Part B of the Project, pursuant to Section 3.02 (a)(iii) of this Agreement, setting out the operational and administrative procedures for LFIs (defined hereafter), in respect of the preparation, approval, processing, financing, implementation and supervision of Sub-loans;

(r) "PMU" means the Project Management Unit established pursuant to the Decision of the Cabinet of Ministers No. 168, dated December 2, 1996, or any successor thereto acceptable to the Association;

(s) "Project Account" means the account to be opened pursuant to Section 6.01 (b) of this Agreement;

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

(u) "Protocol No. 3" means the Decision of ANB on Rules on Licensing and Regulating the Activities of Non-bank Credit Organizations dated February 28, 1998;

(v) "Prudential Guidelines for Credit Cooperatives" means the guidelines issued by ANB to regulate the financial intermediation activities of Credit Cooperatives and the supervisory procedures to verify compliance with the guidelines and referred to in paragraph A.3 (b) (iv) of Schedule 1 to this Agreement;

(w) "RACs" means the Rural Advisory Centers established or to be established under the supervision of MOA;

(x) "RLRO" means the Regional Land Registration Offices of the Borrower under the SLC (defined hereafter);

(y) "RPU" means the Rural Policy Unit to be established pursuant to Section 3.05 of this Agreement, or any successor thereto acceptable to the Association;

(z) "SLC" means the State Land Committee of the Borrower;

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

(bb) "Sub-borrower" means any farmer or rural entrepreneur selected pursuant to criteria set forth in paragraph 4 of Attachment to the Annex 2 to Schedule 3 to

this Agreement, to which a LFI proposes to make or has made a Sub-loan (defined hereafter);

(cc) "Sub-loan" means a loan made or proposed to be made by a LFI out of the proceeds of the Credit to a Sub-borrower for a Sub-project (defined hereafter);

(dd) "Sub-project" means a specific development project to be carried out by a Sub-borrower utilizing the proceeds of a Sub-loan;

(ee) "Subsidiary Loan Agreements" means the agreements to be entered into between the Implementing Agency for Part B of the Project and the LFIs pursuant to paragraph B.2 and 3 of Annex 2 to Schedule 3 to this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan Agreements; "Subsidiary Loan Agreement" means singularly any one of the said agreements; and "Subsidiary Loan" means a loan made or proposed to be made under the said Subsidiary Loan Agreement; and

(ff) "SVC" means the State Veterinary Committee of the Borrower.

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 twenty-two million two hundred thousand Special Drawing Rights (SDR 22,200,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) 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 (other than Parts B and C.3 (b) thereof) and to be financed out of the proceeds of the Credit; (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by a LFI on account of withdrawals made by a Sub-borrower under a Sub-loan to meet the reasonable cost of goods, works and services required for the Sub-project under Part B of the Project in respect of which the withdrawals from the Credit Account is requested; and (iii) amounts paid (or, if the Association, shall so agree, to be paid) by the Borrower on account of Grants under Part C.3 (b) of the Project.

Section 2.03. The Closing Date shall be March 31, 2004, 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 April 15 and October 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 April 15 and October 15, commencing October 15, 2009, and ending April 15, 2034. Each installment to and including the installment payable on April 15, 2019, 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 Association 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: (i) Parts A, C, D and E of the Project through the MOF and other ministries and agencies set forth in Annex 1 to Schedule 3 to this Agreement; and (ii) Part B of the Project through the Implementing Agency for Part B of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, agricultural and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation or restriction upon the provisions of paragraph (a) of this Section, and except as the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. (a) Without limitation upon the provision of Section 3.01 of this Agreement, and except as the Association and the Borrower shall otherwise agree, the Borrower shall, for purposes of carrying out Part B of the Project, not later than March 31, 2000: (i) select the Implementing Agency for Part B of the Project pursuant to criteria satisfactory to the Association; (ii) enter into an Agency and Cofinancing Agreement with the Implementing Agency for Part B of the Project under terms and conditions satisfactory to the Association including, without limitation, the terms and conditions set forth in paragraph 3 of Schedule 3 to this Agreement; and (iii) cause the Implementing Agency for Part B of the Project to adopt the Operational Guidelines satisfactory to the Association.

(b) The Borrower shall exercise its rights and comply with its obligations under the Agency and Cofinancing Agreement in such manner as to protect the interests

of the Borrower, the Association and the Implementing Agency for Part B of the Project and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive the Agency and Cofinancing Agreement or any provision thereof.

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Association and the Borrower shall otherwise agree, the Borrower shall, for purposes of Part C.3 (b) of the Project:

(a) make available the proceeds of the Credit allocated from time to time to Category (5) of the table set forth in paragraph A.1 of Schedule 1 to this Agreement, to grant recipients selected in accordance with the procedures, eligibility criteria, and on terms and conditions set forth in the Grant Guidelines, which shall be satisfactory to the Association and shall include, without limitation, reporting, procurement, suspension and termination provisions;

(b) exercise its rights under each Grant Agreement in such manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Project, and, shall not assign, amend, abrogate or waive any Grant Agreement or any provision thereof without prior approval of the Association.

Section 3.04. The Borrower shall not later than January 31, 2000, prepare the annual budget and work program under the Project, satisfactory to the Association, for its fiscal year 2000, and not later than November 30 of each year the annual budget and work program for subsequent fiscal years satisfactory to the Association.

Section 3.05. The Borrower shall not later than January 31, 2000, submit to the Association the fee structure for land transactions undertaken by RLROs, satisfactory to the Association.

Section 3.06. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Association and the Borrower shall otherwise agree, the Borrower shall for the purposes of Part D of the Project, not later than January 31, 2000, establish the RPU with adequate staff and resources acceptable to the Association.

Section 3.07. 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 4 and paragraph 6 (b) of the Attachment to the Annex 2 to Schedule 3 to this Agreement.

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 before 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 March 31, 2000, 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.

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 Implementing Agency for Part B of the Project shall have failed to perform any of its obligations under the Agency and Cofinancing Agreement;
- (b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Implementing Agency for Part B of the Project shall be able to perform its obligations under the Agency and Cofinancing Agreement;
- (c) the Operational Guidelines shall have been amended, abrogated, repealed or otherwise modified without the prior approval of the Association;
- (d) the founding documents of the Implementing Agency for Part B of the Project shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of the Implementing Agency for Part B of the Project or its ability to carry out its respective part of the Project or to perform any of its respective obligations under the Agency and Cofinancing Agreement; and
- (e)
 - (i) Subject to subparagraph (ii) of this paragraph, the Cofinancing Funds for financing Part B of the Project shall have been suspended, canceled or terminated in whole or in part.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction to the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (f) Protocol No. 3 has been amended, suspended, abrogated, repealed, waived or failed to be enforced so as to affect, in the opinion of the Association, materially and adversely the ability of the Borrower to perform any of its obligations set forth or referred to in this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

- (a) the events specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and
- (b) the events specified in paragraphs (d), (e), (i) and (f), subject to the proviso of paragraph (e) (ii), of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 have been appointed, with experience and qualifications, and under terms of reference acceptable to the Association; and
- (b) the Project Account has been opened in a local commercial bank, satisfactory to the Association, and made an initial deposit of an amount in Manat equivalent to \$50,000 into such account.

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
83 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/ Abbas Abbasov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tefvik M. Yaprak

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
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(1)	Civil works	170,000	80%
(2)	Consultants' services	5,330,000	100%
(3)	Training	1,450,000	90%
(4)	Sub-loans	6,810,000	80%
(5)	Goods	3,910,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(6)	Grants	930,000	100%
(7)	Incremental operating costs	1,900,000	90% of expenditures incurred through December 31, 2000; 80% of expenditures incurred through December 31, 2001; 70% of expenditures incurred through December 31, 2002; and 50% thereafter
(8)	Unallocated	1,700,000	
	TOTAL	22,200,000	

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 on account of Project implementation, management and monitoring, including office supplies, vehicle operation and travel; and

(d) the term "training" means training activities (other than consultants' services) to be carried out under the Project, including the cost of workshops and the travel cost and per diem of the trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this Agreement;

(b) under Category (4) unless:

(i) the Implementing Agency for Part B of the Project has been selected pursuant to Section 3.02 (a) (i) of this Agreement;

(ii) the Agency and Cofinancing Agreement has been executed pursuant to Section 3.02 (a) (ii) of this Agreement;

(iii) the Operational Guidelines has been adopted pursuant to Section 3.02 (a) (iii) of this Agreement;

(iv) the Prudential Guidelines for Credit Cooperatives by ANB has been adopted satisfactory to the Association; and

(v) the Sub-loan has been made in accordance with the criteria and

procedures set forth in the Operational Guidelines and on terms and conditions referred to in the Attachment to the Annex 2 to Schedule 3 to this Agreement; and

(c) under Category (6) unless the Grant has been made in accordance with criteria and procedures set forth in the Grant Guidelines.

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 costing less than \$100,000 equivalent each; (b) contracts for works costing less than \$100,000 equivalent each; (c) Sub-loans, Grants, training and incremental operating costs; (d) contracts for employment of consulting firms not exceeding \$100,000 equivalent; and (e) contracts for employment of individual consultants not exceeding \$25,000 equivalent, each 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 the Project 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 the Project 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 the Project 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 the Project 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 \$2,000,000 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 \$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 equal or exceed the equivalent of SDR 10,000,000.

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 \$2,000,000.

SCHEDULE 2

Description of the Project

The objective of the Program is to restore the productivity of the Borrower's farming areas under a new system characterized by private family and group farms operating in private markets.

The objectives of the Project are to: (a) assist in registering private rights to rural farm land and testing mechanisms for a unified real estate registration system encompassing urban and rural land and buildings; (b) support the creation of a self-sustainable rural financial system based on the development of LFIs; (c) establish rural information and advisory services; (d) strengthen research and veterinary services; and (e) create capacity to analyze and respond to the impact of developments in the oil sector to the agricultural sector.

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: Land Registration

1. Strengthening the capacity of SLC and RLROs for issuance of land titles and development of a decentralized land registration system and land ownership database through rehabilitation of offices and provision of office equipment, technical assistance, training and operating costs.
2. Provision of equipment, technical assistance and training for the implementation of a pilot unified real estate registration and cadastre system in Nakhchivan Autonomous Republic.

Part B: Rural Credit Line

The establishment and operation of a credit facility for the financing, through the provision of Sub-loans by LFIs to Sub-borrowers, of Sub-projects.

Part C: Information and Advisory Services

1. Strengthening the institutional capacity of ESC to carry out information campaigns and produce publications on farm management and technical topics, and develop a price information system through provision of technical assistance, training and equipment.
2. Developing mechanisms for the delivery of contract extension and training services, including the establishment of RACs, through provision of technical assistance, training, equipment and operating costs.
3. (a) Providing farms with access to improved technologies and developing a national strategy for reforming and modernizing agricultural research through

provision of technical assistance, training, studies, and equipment.

(b) Supporting adaptive research on productivity enhancing activities through provision of Grants, awarded on competitive basis, to universities, non-governmental organizations, farmer organizations, and individuals.

(c) Providing veterinary services, including vaccinations, animal care and advice on improving animal productivity.

Part D: Agricultural Strategy

(i) Strengthening the institutional capacity of RPU through provision of technical assistance, training and equipment.

(ii) Development of evaluation procedures and studies on policy and investment options for rural sector management.

Part E: Project Management Unit

Strengthening the institutional capacity of PMU to carry out the Project through provision of technical assistance, training and equipment.

* * *

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

SCHEDULE 3

Implementation Program

1. The Borrower shall maintain, until the completion of the Project the PMU, and ensure that the PMU function at all times in a manner and with staffing and budgetary resources necessary and appropriate for Project implementation, and satisfactory to the Association.

2. Without limitation to the general responsibility of the PMU in coordinating the Project implementation, the Borrower shall assign responsibilities for the Project as indicated in Annex 1 to this Schedule.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and 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 February 28 of each year, commencing on February 28, 2001, 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 twelve-month 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 March 31, 2002, 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.

4. For the purposes of carrying out Part B of the Project, the Borrower shall enter into an Agency and Cofinancing Agreement with the Implementing Agency for Part B of the Project whereby the Implementing Agency for Part B of the Project shall undertake to:

(a) carry out its activities under Part B of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) relend to the LFIs, on behalf of the Borrower, the equivalent of the proceeds of the Credit allocated from time to time to Category (4) of the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement under Subsidiary Loan Agreements to be entered into between the Implementing Agency for Part B of the Project and each such LFI, under terms and conditions which shall have been approved by the Association, and which shall include, without limitation, those set forth in the Annex 2 to this Schedule;

(c) monitor the overall execution of Part B of the Project and the carrying out by the LFIs of their obligations under their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Association;

(d) take or cause to be taken all action necessary or appropriate on its part to enable the LFIs to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the LFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance;

(e) in respect of payment of interest or other charges on, or repayment of principal, made to it by LFIs, under the Sub-loans, upon receipt of each such repayment, credit the Borrower's corresponding portion to the account of the Borrower maintained for the purposes of the Project;

(f) exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Association and the Borrower and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof;

(g) (i) exchange views with, and furnish all such information to the Association and the Borrower, as may be reasonably requested by the Association and the Borrower with regard to the progress of its activities under the Project and the performance of its obligations under the Agency Agreement and Cofinancing Agreement and under its Subsidiary Loan Agreements; and (ii) promptly inform the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under the Agency and Cofinancing Agreement and under its Subsidiary Loan Agreements; and

(h) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; (iii) furnish to the Borrower as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of said audit by said auditors in such scope and detail as the Association shall have reasonably requested; and (iv) furnish to the Association and the Borrower such other information, concerning said records, accounts and financial statements, as well as the audit thereof, as the Association or the Borrower shall from time to time reasonably request.

ANNEX 1 TO SCHEDULE 3

Agencies Responsible for Execution of the Project

Part of the Project	Responsible Agency
Part A	SLC and RLROs
Part B Project	Implementing Agency for Part B of the
Part C.1	ESC Part C.2 ESC Part C.3 (a) MOA Part C.3 (b) CGSB Part C.3 (c) SVC
Part D	MOE and RPU
Part E	PMU

ANNEX 2 TO SCHEDULE 3

Principal Terms and Conditions of the
Subsidiary Loan Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 4 (b) of Schedule 3 to this Agreement.

A. Terms

1. The principal amount to be relented out of the proceeds of the Credit to a LFI under its respective Subsidiary Loan Agreement shall be denominated in Manat and be the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. (a) The Subsidiary Loan to Credit Cooperatives shall: (i) be charged semi-annually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal to the six (6) month auction rate of ANB; (ii) have a maturity of not more than three (3) years including a grace period not more than one (1) year.

(b) The Subsidiary Loan to a Group of Borrowers shall: (i) be charged monthly or semi-annually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal to the six (6) month auction rate of ANB plus a margin of not less than fifteen percent (15%); and (ii) have a maturity of not more than 12 months.

3. The right of a LFI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such LFI to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of sixty (60) days.

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a LFI, which the Implementing Agency for Part B of the Project shall have determined that such LFI:

(a) in case of Credit Cooperatives:

- (i) is duly established and licensed to operate as a credit cooperative in Azerbaijan;
- (ii) is in compliance with applicable prudential norms and regulations of Azerbaijan;
- (iii) has adequate managerial capacity; and
- (iv) has agreed to an institutional development plan including a set of time-bound monitorable performance indicators acceptable to the Association.

(b) in case of Group of Borrowers, have no payment of principal or interest outstanding due on previously obtained Sub-loans under the Project.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective Credit Cooperative shall undertake to:

(a) carry out activities under Part B of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in the Operational Guidelines, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Sub-borrowers on the terms and conditions set forth in the Operational Guidelines including, without limitation, the terms and conditions set forth in the Attachment to this Annex 2;

- (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower, the Implementing Agency for Part B of the Project and the Association, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part B of the Project;
 - (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower; and
 - (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by the Sub-borrowers of Sub-projects, in accordance with the Operational Guidelines;
- (c) maintain, with staff and other resources and under terms of reference, satisfactory to the Association and the Implementing Agency for Part B of the Project technical staff to be responsible for the appraisal and supervision of the carrying out of Sub-projects;
- (d)
 - (i) exchange views with, and furnish all such information to the Association or the Implementing Agency, as may be reasonably requested by the Association, the Borrower or the Implementing Agency, with regard to the progress of its activities under Part B of the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of Part B of the Project;
 - (ii) prepare and submit to the Implementing Agency quarterly reports on Sub-loan disbursements and repayments, and on the progress made in achieving the objectives outlined in the business plans submitted with the Sub-loan applications; and
 - (iii) promptly inform the Association and the Implementing Agency of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;
 - (e)
 - (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; and
 - (ii) furnish to the Association such information concerning said records and accounts as the Association shall from time to time reasonably request; and
 - (f) assume the credit risk of each Sub-loan.

3. Terms and conditions of Subsidiary Loan Agreements with Group of Borrowers shall be set forth in the Operational Guidelines.

ATTACHMENT TO THE ANNEX 2 TO SCHEDULE 3

Terms and Conditions of the Sub-loans

The provisions of this Attachment shall be for the purposes of paragraph 2 (b) (i) of Part B of the Annex 2 to this Schedule 3.

1. The principal amount of each Sub-loan made out of the proceeds of the Credit allocated from time to time to Category (4) of the table set forth in paragraph A.1 of Schedule 1 to the Development Credit Agreement shall:

(a) be denominated in Manat, and be the equivalent in Manat (determined as of the date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods, works and services financed out of such proceeds for Sub-loans under Part B of the Project; and

(b) not exceed the equivalent of \$5,000 equivalent for the Sub-borrowers of Credit Cooperatives and \$900 equivalent for the members of Group of Borrowers.

2. (a) Each Sub-loan to the Sub-borrowers of Credit Cooperatives shall be:
 - (i) charged, on the principal amount thereof withdrawn and outstanding from time to time, an interest rate as may be determined by respective Credit Cooperative on the basis of its assessment of market conditions, risk management, administrative costs and reasonable profit margins;
 - (ii) paid, in respect of interest on the outstanding principal balance of the Sub-loan as determined by the Credit Cooperative in accordance with its investment and lending policies; and
 - (iii) repaid, in respect of the principal balance of the Sub-loan disbursed and outstanding, within a period of two (2) years or less.
- (b) Each Sub-loan to the members of Group of Borrowers shall be charged interest at a rate equal to the rate set forth in paragraph A.2 (b) of Annex 2 to Schedule 3 to this Agreement.
3. The requirements and the procedures for the approval of the Sub-loans by the Implementing Agency shall be set forth in the Operational Guidelines.
4. Sub-loans shall be made only to Sub-borrowers who:
 - (a) are creditworthy based on an analysis, undertaken in accordance with criteria set forth in the Operational Guidelines;
 - (b) are small or micro rural entrepreneurs;
 - (c) utilize the proceeds of the Sub-loan in the carrying out of a Sub-project determined by the LFI (in accordance with appraisal principles satisfactory to the Association) to be technically, financially and environmentally feasible; and
 - (d) are residents of localities where the LFIs are established.
5. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with the Operational Guidelines, to be:
 - (a) technically feasible and economically and financially viable, based on criteria set forth in the Operational Guidelines; and
 - (b) in compliance with environmental standards satisfactory to the Association and in compliance with all applicable laws and regulations of the Borrower relating to health, safety and environmental protection.
6. Sub-loans shall be made on terms whereby the LFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Implementing Agency for Part B of the Project, the Borrower and the Association, including the right to:
 - (a) require the Sub-borrower to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economic, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;
 - (b) require that: (i) the works and goods to be financed out of the proceeds of the Credit shall be procured on the basis of commercial practices acceptable to the Association, due account being taken also of other relevant factors such as time of delivery and efficient and reliability of the goods and availability of maintenance facilities and spare parts thereof, and in the case of consultants' services, of their quality and the competence of the parties rendering them; and (ii) such goods, works and services be used exclusively in the carrying out of the Sub-project;
 - (c) inspect, by itself or jointly with representatives of the Association or the Implementing Agency for Part B of the Project, if the Association, the Borrower or the Implementing Agency for Part B of the Project shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;
 - (d) carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Association;

(e) obtain all such information as the Association, the Borrower or the Implementing Agency for Part B of the Project reasonably request relating to the foregoing and to the administration, operations and financial condition of the Sub-borrower and to the benefits to be derived from the Sub-project; and

(f) suspend or terminate the right of the Sub-borrower to the use of the proceeds of the Credit upon failure by such Sub-borrower to perform its obligations under its contract with the LFI.

SCHEDULE 4

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 provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part A.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more each.

(b) Preference for domestically manufactured goods

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.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

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 \$380,000 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 \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$220,000 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 \$100,000 equivalent per contract, up to an amount not to exceed \$300,000 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 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 each contract for goods and works procured pursuant to Part B.1 of this Section I, 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 for goods and works procured pursuant to Part B of this Section, 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. Least-cost Selection

Services for advisory services, information campaign and agricultural policy analyst, estimated to cost up to an aggregate amount not to exceed \$1,070,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for institutional development specialists for veterinary services and epidemiologist estimated to cost up to an aggregate amount not to exceed \$210,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultants Guidelines.

3. Individual Consultants

Services 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.

4. Single Source Selection

Services for research strategies and competitive Grants and agricultural priority areas up to an aggregate amount not to exceed \$148,000 equivalent, may, with the Bank'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 \$200,000 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 consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) 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.

