

Public Disclosure Authorized

CONFORMED COPY

CREDIT A NUMBER 4207 AZ
CREDIT B NUMBER 4208 AZ

Financing Agreement

(Second Agricultural Development and Credit Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 5, 2006

CREDIT A NUMBER 4207 AZ
CREDIT B NUMBER 4208 AZ

FINANCING AGREEMENT

AGREEMENT dated October 5, 2006, between REPUBLIC OF AZERBAIJAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, financing on credit terms in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
 - (a) an amount equivalent to six million Special Drawing Rights (SDR 6,000,000) (Credit A); and
 - (b) an amount equivalent to fourteen million one hundred thousand Special Drawing Rights (SDR 14,100,000) (Credit B).

Credit A and Credit B shall be referred to collectively as the “Credit”.

- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Recipient shall pay interest at the rate of three percent (3%) per annum on the principal amount of the Credit A withdrawn and outstanding from time to time which shall be computed on the basis of a 360-day year of twelve 30-day months. Interest shall accrue from the respective dates on which such amounts shall have been withdrawn, and shall be payable semi-annually in arrears on each Payment Date.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project, through the PMU in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the Operational Manual, the Rural Investment Guidelines and the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) The law, decree, charter or other founding documents of the PMU, or any legal or regulatory enactments upon which the authority for the PMU to implement the Project are based, has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PMU to perform any of its obligations under this Agreement.

- (b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of the Co-financing Grant has been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Co-financing Grant Agreement.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:
 - (A) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under the Co-financing Grant Agreement; and
 - (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under the Co-financing Grant Agreement.

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

Any event specified in paragraph (a) or (b) of Section 4.01 of this Agreement occurs.

ARTICLE V - EFFECTIVENESS; TERMINATION

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

- (a) The Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled.
- (b) The Operational Manual has been revised satisfactory to the Association.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance
83 Samed Vurgun Street
Baku AZ1022
Republic of Azerbaijan

Telex:

142116 BNKSL

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

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

REPUBLIC OF AZERBAIJAN

By /s/ Ismat Dursun oglu Abasov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory T. Jedrzejczak

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) enhance the access of farmers and small- and medium-size rural enterprises to rural business and agricultural support services, including financial, advisory and veterinary services; and (b) stimulate market-oriented investments in rural areas.

The Project constitutes the second phase of the Program, and consists of the following parts:

Component 1: Agricultural Business Services

(a) Enhancement of access to small loans by rural entrepreneurs through credit unions and BGs which shall be strengthened through the provision of sub-loans, consultants' services and training.

(b) Expansion of rural financial services such as long-term credit for investment purposes and leasing programs for processing and agricultural equipment, through provision of sub-loans, consultants' services and training.

(c) Improvement of rural markets' efficiency by introducing innovative mechanisms which encourage sustainable linkages between small-scale businesses and agro-processors with farmers, associations and groups, through provision of grants, consultants' services and training.

(d) Strengthening of rural business, market information and promotion services offered through rural advisory systems.

Component 2: Agricultural Support Services

(a) Further development of an effective information and advisory system which provides farmers and other rural entrepreneurs with appropriate knowledge and skills to improve their productivity, quality of production, management and marketing, through provision of goods, consultant's services and training.

(b) Improvement of animal production through enhanced access to quality veterinary and husbandry services nationwide, and restoration of the disease surveillance and preparedness functions of the State Veterinary Services of the Recipient, through provision of works, goods, consultants' services and training.

(c) Improvement of capacity of selected research institutions to provide adapted technologies and critical information to advisory staff and producers, through provision of works, goods, consultants' services and training.

Component 3: Project Management

Support of the PMU for the effective implementation of the Project, through provision of goods, works, consultants' services and training.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. By April 14, 2007, the Recipient, through the PMU, shall have appointed an independent auditor under terms of reference acceptable to the Association.

2. The Recipient shall:

(a) maintain, until completion of the Project, the PMU with resources, staff, powers and functions satisfactory to the Association; and

(b) select staff of the PMU on a competitive basis, satisfactory to the Association.

3. Without limitation upon the provisions of Section 3.01 and except as the Recipient and the Association shall otherwise agree, the Recipient shall:

(a) within one (1) month after this Financing Agreement has been declared effective, open a Project Account in a bank on terms and conditions acceptable to the Association with an initial deposit in local currency equivalent to \$100,000; and

(b) maintain a balance in the Project Account, until completion of the Project, with the amount adequate for the subsequent three (3) months of Project implementation.

4. The Recipient shall ensure that all measures necessary for the carrying out of the EMP shall be taken in a timely manner.

5. The Recipient shall furnish to the Association, for its prior review and concurrence: (a) all the Sub-projects proposals for each PFI under Component 1 (b) of the Project regardless of their amounts, until such time when the PFI's analytical performance is found to be satisfactory to the Association; and (b) the first thirty (30) Sub-projects recommended for approval under Component 1 (c) of the Project.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General

Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than January 31, 2011.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have the Financial Statements for the Project audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **National Competitive Bidding.** Except as otherwise provided in paragraph 3 below, works shall, and goods may, be procured under contracts awarded on the basis of National Competitive Bidding, subject to the following additional procedures:

(a) There shall be no eligibility restrictions based on nationality of bidder.

(b) Pre-qualification shall not be used for simple works procurement and shall be conducted only for large works projects.

(c) Entities in which the State or a State official owns a shareholding of whatever size shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and they operate under commercial law.

(d) No national preferences may be applied on the basis of the origin of products or labor.

(e) Joint venture partners shall be jointly and severally liable for their obligations.

(f) No "participation fee" shall be required of bidders for the purchase of bidding documents. The only charge shall be equivalent to the cost of producing (copying) the bidding documents.

(g) In the evaluation of bids, bids may not be rejected where they differ substantially from the estimated prices calculated by the procuring entity, except where the bid prices exceed the available budget.

(h) Rebidding shall not be carried out without prior approval of the Association.

(i) Works contracts of more than eighteen (18) months' duration shall include appropriate price adjustment provisions.

(j) Prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.

3. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>	
(a)	Shopping
(b)	Direct Contracting
(c)	Established Private or Commercial Practices which have been found acceptable to the Association
(d)	Community Participation procedures referred to in Paragraph C. 5 (c) of Section V of Schedule 2 to this Agreement.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>	
(a)	Selection based on Consultants' Qualifications
(b)	Least-Cost Selection
(c)	Established Private or Commercial Practices which have been found acceptable to the Association
(d)	Single-source Selection
(e)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f)	Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing, in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Credits A and B to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit A Allocated (Expressed in SDR)	Amount of the Credit B Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1) Works and Goods		1,667,000	80%
(2) Consultant's Services, including Audits			
(a) for IAC and RAC under Component 2 (a) of the Project		1,847,000	70% until December 31, 2008 and 30% thereafter
(b) for others		1,692,000	80%
(3) Training		890,000	100%
(4) Sub-loans under Component 1 (a) of the Project		5,950,000	100%

Category	Amount of the Credit A Allocated (Expressed in SDR)	Amount of the Credit B Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(5) Sub-loans under Component 1 (b) of the Project	6,000,000		55%
(6) Competitive Grants under Component 1 (c) of the Project		1,238,000	100%
(7) Incremental Operating Costs			
(a) for IAC and RAC under Component 2 (a) of the Project		146,000	70% until December 31, 2008 and 30% thereafter
(b) for others		670,000	55%
TOTAL AMOUNT	<u>6,000,000</u>	<u>14,100,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$350,000 equivalent may be made for payments made prior to this date but on or after June 1, 2006, for Eligible Expenditures under Categories (1), (2), (3) and (7);

(b) under Category (4) for Sub-loans under Component 1 (a) of the Project unless:

(i) the Agency Agreement, satisfactory to the Association, has been duly executed;

- (ii) the CIA Business Plan, satisfactory to the Association, has been submitted to the Association; and
- (iii) the CIA Operational Manual and Credit Union Operational Manual have been approved;
- (c) under Category (5) for Sub-loans under Component 1 (b) of the Project unless the Rural Investment Guidelines satisfactory to the Association and the Recipient's Ministry of Finance have been prepared and submitted; and
- (d) under Category (6) for Competitive Grants unless the Competitive Grant Committee, satisfactory to the Association, has been established.

2. The Closing Date is May 31, 2011.

Section V. Other Undertakings

A. Eligibility Criteria and Procedures under Component 1 (a) of the Project

1. The Recipient shall ensure that the Credit Union Sub-loans and BG Sub-loans are made in accordance with the criteria and procedures set forth in the CIA Operational Manual or Credit Union Operational Manual, and on terms and conditions referred to in this Section of this Agreement;
2. For the purposes of Component 1 (a) of the Project, Recipient shall relend part of the proceeds of the Credit B to the CIA under an agency agreement to be entered into between the Ministry of Finance of the Borrower, the State Agency of Agricultural Credit of the Recipient and the CIA under terms and conditions which shall have been approved by the Association and which shall include the following:
 - (a) the principal amount to be relent out of the proceeds of the Credit to the CIA shall be denominated in Manat;
 - (b) the interest to the CIA shall be charged semi-annually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate (the base lending rate) equal to the six (6) month auction rate of the National Bank of Azerbaijan;
 - (c) its maturity period is not more than three (3) years including a grace period not more than one (1) year; and
 - (d) the CIA shall add a spread to the base lending rate in order to determine the on-lending rates to the BGs and credit unions, which shall be determined on the basis of the CIA Business Plan, satisfactory to the Association.
3. The eligibility criteria for Sub-projects under Component 1 (a), through credit unions to the Sub-loan Beneficiary under Component 1 (a) of the Project shall be defined

in the Credit Union Operational Manual, satisfactory to the Association, including the process of appraisal, supervision and monitoring, as well as environmental and procurement requirement.

4. Participating credit unions shall:

(a) have been licensed by the National Bank of Azerbaijan, in accordance with the Rules of Licensing the Banking Activity of Credit Unions, approved by the National Bank of Azerbaijan on January 27, 2001 (Protocol No. 1), or any other applicable laws and regulations of the Recipient;

(b) be in compliance with all the prudential norms prescribed by the National Bank of Azerbaijan through its Rules on Normative Economic Regulation of Credit Unions dated January 27, 2001 (Protocol No. 1);

(c) maintain a minimum loan recovery rate of 95%;

(d) have the annual audit of their accounts; and

(e) abide by the terms and conditions of the Credit Agreement between the CIA and the credit union.

5. Each credit union shall be free to set its on-lending rates on the basis of its assessment of market's conditions, risk management, administrative costs and a reasonable profit margin which shall be contained in its business plan, satisfactory to the Association.

6. Following the execution of the Credit Agreement, each credit union shall enter into a Credit Union Sub-loan Agreement with each of Sub-loan Beneficiary under Component 1 (a) of the Project, as set forth in the CIA Operational Manual.

7. The eligibility criteria for the Sub-projects under Component 1 (a) through the CIA to the BGs shall be defined in the CIA Operational Manual, satisfactory to the Association, including the process of appraisal, supervision and monitoring, as well as environmental and procurement requirement.

8. Following the execution of the Agency Agreement, the CIA shall enter into a BG Sub-loan Agreement with each BG under Component 1 (a) of the Project, as set forth in the CIA Operational Manual.

B. Eligibility Criteria and Procedures under Component 1 (b) of the Project

1. The Recipient shall ensure that PFI Sub-loans are made in accordance with the criteria and procedures set forth in the Rural Investment Guidelines and on terms and conditions referred to in this Section of this Agreement.

2. For the purposes of Component 1 (b) of the Project, the Recipient shall onlend the amount of the Credit A to the eligible PFIs under Subsidiary Loan Agreements to be entered into between the Recipient and each eligible PFI. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

(a) The Recipient shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interest of the Recipient and the Association and to accomplish the purposes of the Project, and the Recipient shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(b) The Subsidiary Loans to eligible PFIs shall be made available in Dollars and/or Manat.

(c) Unless the Recipient and the Association shall otherwise agree, the interest rate on the Subsidiary Loans dominated in Manat shall be variable (floating) base equal to the six (6) month auction rate of the National Bank of Azerbaijan. This interest rate shall be revised semi-annually in accordance with the provisions stipulated in the Rural Investment Guidelines.

(d) Unless the Recipient and the Association shall otherwise agree, the interest rate on the Subsidiary Loans dominated in Dollars shall consist of a variable (floating) base equal to six (6) month LIBOR rate for Dollars plus a two percent (2%) spread. This interest rate shall be revised semi-annually in accordance with the provisions stipulated in the Rural Investment Guidelines.

(e) The interest shall be charged by the PFI on the principal of each Sub-loan withdrawn by the Sub-loan Beneficiary under Component 1 (b) of the Project and outstanding from time to time, at the prevailing interest rate under the Subsidiary Loan Agreement plus a market-based spread determined by the PFI.

3. Eligibility criteria of the PFI include the following:

(a) It is a bank or a leasing company legally registered in the territory of the Recipient.

(b) It has been found satisfactory after undergoing a due diligence process by the Recipient and the Association.

(c) It has been in compliance with all applicable banking laws and prudential regulation of the National Bank of Azerbaijan.

(d) It has been servicing or is developing capability to service the sectors of primary agricultural production, agricultural marketing, agricultural storage or agro processing.

(e) It has undergone an annual audit, with an unqualified audit opinion according to the International Standards on Auditing, by an audit firm acceptable to the Association.

4. Eligible Sub-projects under Component 1 (b) of the Project include the investment related to primary agricultural production, agricultural marketing, agricultural storage and agro processing.

5. Following the execution of the Subsidiary Loan Agreement, each PFI shall enter into a PFI Sub-loan Agreement with each of the Sub-loan Beneficiary under Component 1 (b) of the Project, as set forth in the Rural Investment Guidelines.

C. Eligibility Criteria and Procedures under Component 1 (c) of the Project

1. The Recipient shall ensure that the Competitive Grants are made in accordance with the criteria and procedures set forth in the Operational Manual and on terms and conditions referred to in this Section of this Agreement.

2. Competitive Grants shall be made available to existing rural business entities, including:

(a) existing formal rural businesses, agro-processing and marketing associations;

(b) existing farmer/producer associations and cooperatives;

(c) farmer and rural business groups which: (i) have common goals and are commercially oriented; and (ii) provided the required documentation set forth in the Operational Manual; and

(d) such other groups, associations and organizations as the Recipient and the Association may agree.

3. The amount of individual Competitive Grants shall be based upon the estimated cost of goods, works and services that will be required, and shall not exceed seventy percent (70%) of the overall costs and limits of individual categories set forth in the Operational Manual.

4. No expenditures referred to under Paragraph 3 above shall be eligible for financing out of the proceeds of the Grant unless a Grant Agreement has been executed between the Grant Recipient and the PMU.

5. Each Grant Agreement shall require the Grant Beneficiary to, *inter alia*:
- (a) ensure that the Competitive Grant funds are used exclusively for the purposes of the approved Sub-project;
 - (b) provide no less than thirty percent (30%) of the total cost, either in cash or in kind;
 - (c) procure the work, goods and services to be financed out of the proceeds of the Competitive Grants under Component 1 (c) of the Project in accordance with the Operational Manual, which is consistent with the Community Participation Procedures in Paragraph 3.17 of the Procurement Guidelines and with the Manual for Conducting Very Small Value Procurement under World Bank/IDA Small Grants, Loans and Credits (June 2004);
 - (d) allow the staff members of the PMU and the Competitive Grants Committee to inspect the sites, works and goods financed by the Competitive Grant; and
 - (e) agree to have the Competitive Grant suspended or terminated upon the Grant Beneficiary's failure to perform the obligations set forth in the Grant Agreement, and be legally obligated, upon termination to reimburse the PMU any Competitive Grant amount already received.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing August 15, 2016 to and including February 15, 2026	1.25%
commencing August 15, 2026 to and including February 15, 2041	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “ACUA” means the Azerbaijan Credit Union Association established pursuant to “Law on Non-Government Organizations (Public Associations and Funds)” of the Republic of Azerbaijan, dated June 13, 2002, and registered with the Ministry of Justice on December 29, 2003 (Registration No. 1103-Q1-1497).
2. “Agency Agreement” means the agreement entered or to be entered into among the Ministry of Finance of the Recipient, the State Agency for Agricultural Credit of the Recipient, the CIA and the ACUA for the implementation of Component 1 (a) of the Project pursuant to Paragraph B. 1 (b) (i) of Section IV of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the Association, and such term includes all schedules to the Agency Agreement.
3. “BG Sub-loan Agreement” means an agreement entered or to be entered into between the CIA and BGs for the purpose of financing a Sub-project.
4. “BG Sub-loans” means a loan made or proposed to be made by the CIA to the BGs, under Component 1 (a) of the Project, in accordance with the CIA Operational Manual for the purpose of financing costs for carrying out a Sub-project.
5. “BG” or “Borrower Group” 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.
6. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
7. “CIA Business Plan” means the business plan for the CIA to promote its lending to credit unions, to be adopted and submitted to the Association pursuant to Paragraph B. 1 (b) (ii) of Section IV of Schedule 2 to this Agreement, as the same may be amended from time to time with the agreement of the Association.
8. “CIA Operational Manual” means the institutional manual for the CIA, to be approved pursuant to Paragraph B. 1 (b) (iii) of Section IV of Schedule 2 to this Agreement, setting forth the operating principle and guidelines for the CIA, the roles and responsibilities of the CIA and the ACUA and the lending terms of the on-lending from the CIA to credit unions and the BG Sub-loans.
9. “CIA” means the Credit Implementation Agency, owned by the ACUA and licensed by the National Bank as a non-banking credit organization on

October 25, 2002, or its successor thereof, responsible for on-lending to the credit unions and BGs under Component 1 (a) of the Project.

10. “Co-financier” means the Government of Japan.
11. “Co-financing Agreement” means the agreement between the Recipient and the Co-financier providing for the Co-financing.
12. “Co-financing” means an amount of \$1,611,000 equivalent to be provided by the Co-financier to assist in financing the Project.
13. “Competitive Grant Committee” means the competitive grant committee to be established pursuant to Paragraph B.1 (d) of Section IV of Schedule 2 to this Agreement, in accordance with the Operational Manual.
14. “Competitive Grant” means a grant made or proposed to be made by the Recipient in connection with Component 1 (c) of the Project out of the Proceeds of the Credit B.
15. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
16. “Credit A” means the portion of the Credit under the Association’s hard-term lending window referred to in Section 2.01 (a) of this Agreement.
17. “Credit Agreement” means the agreement between the CIA and credit unions, including the terms of on-lending from the CIA to credit unions for the implementation of Component 1 (a) of the Project.
18. “Credit B” means the portion of the Credit which is subject to the Association’s regular lending terms for the Recipient and is referred to in Section 2.01 (b) of this Agreement.
19. “Credit Union Operational Manual” means the institutional manual for each credit union, to be approved pursuant to Paragraph B.1 (b) (iii) of Section IV of Schedule 2 to this Agreement, setting forth the operating principle and guidelines for credit unions as well as details of the terms of the Credit Union Sub-loans.
20. “Credit Union Sub-loan Agreement” means an agreement to be entered into between a credit union and a Sub-loan Beneficiary under Component 1 (a) of the Project, for the purpose of financing a Sub-project.
21. “Credit Union Sub-loans” means a loan made or proposed to be made by the credit unions to the Sub-loan Beneficiary under Component 1 (a) of the Project,

in accordance with the Agency Agreement for the purpose of financing costs for carrying out of a Sub-project.

22. “EMP” means the environmental management plan, satisfactory to the Association, adopted by the Recipient and submitted to the Association on April 10, 2006, setting forth measures to mitigate any adverse impacts to the environment under the Project.
23. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
24. “Grant Agreement” means the agreement to be entered into between the Recipient and each Grant Beneficiary, as the same may be amended from time to time, and such a term includes all schedules and agreements supplemental to the Grant Agreement.
25. “Grant Beneficiary” means the recipient of a Competitive Grant, meeting the criteria referred to in Paragraph C.2 of Section V of Schedule 2 to this Agreement.
26. “IAC” means the Information and Advisory Centre of the Recipient, responsible for contracting service providers for training, information campaigns and technical support for RAC under Component 2 (a) of the Project.
27. “Incremental Operating Costs” means incremental expenses incurred with respect to the implementation of the Project, including costs of office and vehicle operation and maintenance, utilities, minor office equipment, minor office repairs, office rent, salaries of staff in the PMU, except for those who are civil servants, translation services, communication and printing, transportation, local business trip expenditures, banking charges and any other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association.
28. “Manat” means the lawful currency of the Recipient.
29. “Operational Manual” means the manual to be revised pursuant to Section 5.01 (b) of this Agreement satisfactory to the Association, setting forth the implementation procedures for activities for the Project, eligibility criteria and terms and conditions under the Project, as the same may be amended from time to time with the agreement of the Association.
30. “PFI Sub-loan Agreement” means an agreement entered into between a PFI and a Sub-loan Beneficiary under Component 1 (b) of the Project, for the purpose of financing a Sub-project.

31. “PFI Sub-loan” means a loan made or proposed to be made by the PFI to the Sub-loan Beneficiaries under Component 1 (b) of the Project, in accordance with the Rural Investment Guidelines for the purpose of financing costs for carrying out of a Sub-project.
32. “PFI(s)” means participating financial institution(s) which meets the criteria set forth in the Rural Investment Guidelines, selected for the provision of the Sub-loans under Component 1 (b) of the Project.
33. “PMU” means the Project Management Unit, responsible for the day-to-day activities and the implementation of the Project, pursuant to the Charter of the State Agency for Agricultural Credits of the Recipient approved by the Presidential Decree (No. 226), dated April 20, 2005, or any successor thereto acceptable to the Association.
34. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
35. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 16, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
36. “Program” means the program designed to reform and develop the agriculture sector and set forth or referred to in the letter, dated May 7, 1999, from the Recipient to the Association.
37. “Project Account” means the account to be opened pursuant to Paragraph 3 of Section I of Schedule 2 to this Agreement, maintained by the Recipient in local currency and to be used for financing the Recipient’s contribution to the Project expenditures.
38. “RAC” means Regional Advisory Centers, contracted to provide training, information and technical support in an assigned region.
39. “Rural Investment Guidelines” means the compendium of the rules and regulations, acceptable to the Association, to be adopted pursuant to Paragraph B. 1 (c) of Section IV of Schedule 2 to this Agreement for the implementation of Component 1 (b) of the Project, as the same may be amended from time to time with the agreement of the Association.
40. “Sub-loan Beneficiary” means an individual or legal entity that intends or already is engaged in agricultural economic activities in rural areas under Component 1 (a) and (b).

41. "Sub-Project" means a specific project to be carried out by either the Grant Beneficiary or the Sub-loan Beneficiary for the purpose of implementing Component 1 of the Project.
42. "Subsidiary Loan Agreement" means an agreement between the Recipient and the PFI for the purpose of implementation of Component 1 (b) of the Project.
43. "Subsidiary Loan" means the total amount of the principal in Dollars or local currency provided by the PMU to the PFIs, in accordance with the terms and conditions of the Subsidiary Loan Agreement.
44. "Training" means fees of consultants, including educational and other institutions and organizations that provide training services, costs of study tours, workshops and related travel expenditures and boarding, lodging and per diem allowances.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 are as follows:

1. The following terms and definitions set forth in the Appendix are modified or deleted as follows:

(a) The term "Financing Payment" is modified to read as follows:

"Financing Payment" means any amount payable by the Recipient to the Association pursuant to the Financing Agreement or these General Conditions, including (but not limited to) any amount of the Withdrawn Credit Balance, the Service Charge, the Commitment Charge, interest and any refund of the Withdrawn Grant Amount payable by the Recipient."