Project Agreement II

(National Water Supply and Sanitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

STATE AMELIORATION AND WATER MANAGEMENT AGENCY
OF NAKHCHIVAN AUTONOMOUS REPUBLIC

Dated August 17, 2007
PROJECT AGREEMENT II

Agreement dated August 17, 2007, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and STATE AMELIORATION AND WATER MANAGEMENT AGENCY OF NAKHCHIVAN AUTONOMOUS REPUBLIC (“SAWMA”) (“Project Agreement II”) in connection with the Loan Agreement (“Loan Agreement”) of same date between the REPUBLIC OF AZERBAIJAN (“Borrower”) and the Bank. The Bank and the SAWMA hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II - PROJECT

2.01. The SAWMA declares its commitment to the objectives of the Project. To this end, the SAWMA shall carry out Components A.2, C.2 and D.2 of the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the SAWMA shall otherwise agree, the SAWMA shall carry out its Respective Part of the Project in accordance with the Project Operational Manual and the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

3.01. The SAWMA’s Representative is its Managing Director.

3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America
Cable: INTBAFRAD
Telex: 248423(MCI) or 1-202-477-6391
Facsimile: 994-136-447-303
Washington, D.C. 64145(MCI)

3.03. The SAWMA’s Address is:

State Amelioration and Water Management Agency
of Nakhchivan Autonomous Republic
Khatai Residential block
Nakhchivan City
Nakhchivan Autonomous Republic
Azerbaijan

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gregory T. Jedrzejczak
Authorized Representative

STATE AMELIORATION AND WATER
MANAGEMENT AGENCY OF NAKHCHIVAN
AUTONOMOUS REPUBLIC

By /s/ Alovsat Bakhshiyev
Authorized Representative
SCHEDULE
Execution of the SAWMA’s Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

The SAWMA shall maintain its project support group with staff, resources, terms of reference satisfactory to the Bank until completion of the Project.

B. Safeguards

1. The SAWMA shall ensure that all measures necessary for the carrying out of the EMP, FEA and RPF shall be taken in a timely manner.

2. (a) In case any activities under the SAWMA’s Respective Part of the Project involves any use of water from existing dams or dams under construction, the SAWMA shall arrange for one or more independent dam specialists, acceptable to the Bank, to (i) inspect and evaluate the safety status of the existing dam or dam under construction, its appurtenances, and its performance history; (ii) review and evaluate the owner's operation and maintenance procedures; and (iii) provide a written report of findings and recommendations for any remedial work or safety-related measures necessary to upgrade the existing dam or dam under construction to an acceptable standard of safety, prior to commencing any such activities.

(b) The SAWMA shall carry out its Respective Part of the Project in accordance with the recommendations set forth in the report referred to in subparagraph (iii) above.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The SAWMA shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of the indicators agreed with the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Azersu not later than one month after the end of the period covered by such report for incorporation and forwarding of the overall Project Report by the Azersu to the Bank.
B. Financial Management, Financial Reports and Audits

1. (a) Except as the Bank shall otherwise agree, the SAWMA shall produce for each of its fiscal years, total collected revenues from water supply and sanitation services in the rayons, for which the investment has been completed under Component A.2 of the Project, equivalent to not less than the sum of its operating expenses for water supply and sanitation services in the rayons, for which the investment has been completed under Component A.2 of the Project.

(b) Before April 30 in each of its fiscal years, the SAWMA shall, on the basis of forecasts prepared by the SAWMA and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the SAWMA’s fiscal years covered by such review, the SAWMA shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For purposes of this Section:

(i) The term “total collected revenues” means the sum of total operating revenues minus unpaid bills of the current year.

(ii) The term “total operating revenues” means the revenues from all sources related to operations.

(iii) The term “operating expenses” means all cash expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes.

Section III. Procurement

1. The Azersu shall ensure that all goods, works and services required for the SAWMA’s Respective Part of the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

2. Only after the Bank has determined that the SAWMA has the satisfactory capacity to take over such responsibility from the Azersu, the SAWMA shall ensure that all goods, works and services required for the SAWMA’s Respective Part of the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.