Project Agreement III

(Second National Water Supply and Sanitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

“AZERSU” JOINT STOCK COMPANY OF REPUBLIC OF AZERBAIJAN

Dated September 5, 2008
PROJECT AGREEMENT III

Agreement dated September 5, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and “AZERSU” JOINT STOCK COMPANY OF REPUBLIC OF AZERBAIJAN (“Azersu”) (“Project Agreement III”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the REPUBLIC OF AZERBAIJAN (“Recipient”) and the Association. The Association and the Azersu hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

2.01. The Azersu declares its commitment to the objectives of the Project. To this end, the Azersu shall carry out Components A.1, B.1 and C.1 of the Project in accordance with the provisions of Article IV 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 Association and the Azersu shall otherwise agree, the Azersu 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 Azersu’s Representative is its president.

3.02. The Association’s Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America
3.03. The Azersu’s Address is:

67 Moscow Avenue
AZ1012 Baku
Republic of Azerbaijan

Facsimile:
994-12-598-3814

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory Jedrzejczak
Authorized Representative

“AZERSU” JOINT STOCK COMPANY
OF REPUBLIC OF AZERBAIJAN

By /s/ Nizameddin Rzayev
Authorized Representative
SCHEDULE

Execution of the Azersu’s Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Azersu shall maintain its International Relations & Development Department with staff, resources, terms of reference satisfactory to the Association until completion of the Project.

2. The Azersu shall retain, during the implementation of the Component A.1 of the Project, the services of a construction management company satisfactory to the Association until the Association’s assessment has determined that the Azersu has the capacity to take over such a responsibility independently.

B. Anti-Corruption

The Azersu shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Azersu 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 Azersu’s Respective Part of the Project involves any use of water from existing dams or dams under construction, the Azersu shall arrange for one or more independent dam specialists, acceptable to the Association, 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 Azersu 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 Azersu 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 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later one month after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

B. Financial Management, Financial Reports and Audits

1. The Azersu shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect: (a) the operations and financial condition of the Azersu, including the operations, resources and expenditures related to the Project; and (b) the operations and financial condition of the SAWMA, including the operations, resources and expenditures related to the Project.

2. The Azersu shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Azersu. The audited financial statements for each period shall be furnished to the Recipient and the Association not later than six (6) months after the end of the period.

3. (a) Except as the Association shall otherwise agree, the Azersu 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 more than one year under Component A.1 of the Project, equivalent to not less than the sum of its operating expenses from water supply and sanitation services in the rayons, for which the investment has been completed more than one year under Component A.1 of the Project.

(b) Before April 30 in each of its fiscal years, the Azersu shall, on the basis of forecasts prepared by the Azersu and satisfactory to the Association, 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 Association the results of such review upon its completion.
(c) If any such review shows that the Azersu would not meet the requirements set forth in paragraph (a) for the Azersu’s fiscal years covered by such review, the Azersu 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

All goods, works and services required for the Azersu’s Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.