The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
1818 H Street N.W.
Washington, D.C. 20433
U.S.A.
(202) 473-1000
Cable Address: INTBAFRA
Cable Address: INDEVA

January 7, 2014

Mr. Samir Sharifov
Minister of Finance
Ministry of Finance
Republic of Azerbaijan

Mr. Sharifov:

Re: Republic of Azerbaijan: Third Highway Project (Loan 7889-AZ)
Amendment to the Loan Agreement and Supplemental Letter No. 2

We refer to the Loan Agreement between the Republic of Azerbaijan (the Borrower) and
the International Bank for Reconstruction and Development (the Bank), dated August 11, 2010
for the above referenced Project and to the letters from the Government of Azerbaijan dated
August 15, 2013 and October 8, 2013, requesting the Bank to amend the Loan Agreement.

We are pleased to inform you that, after due consideration, the Bank has acceded to your
request. Consequently, the Loan Agreement and the related Supplemental Letter No. 2 are
hereby amended as follows:

A. Loan Agreement:

1. Schedule 1 to the Loan Agreement shall be amended to read as set forth in Annex 1 to
this amendment letter.

2. Paragraph 2, Section 1 D of Schedule 2 to the Loan Agreement shall be amended to read
as follows:

"2. For purposes of Part A of the Project, the Borrower shall: (a) prior to the issuance
of the bidding documents for the works contract for each segment of the Baku-Shamakhi
and the Yenikend-Shorsulu roads, prepare and submit to the Bank for its approval: (i) the
proposed design and site for said works and, the related site-specific EIA and/or EMP in
form and substance satisfactory to the Bank; and (ii) the draft contract for said works to
ensure that the provisions of said site-specific EIA and/or EMP are adequately included
in said contract; (b) prior to the signing of the contract for said works, prepare and submit
to the Bank for its approval the site-specific land acquisition and/or resettlement action
plan(s) (RAP(s)) in form and substance satisfactory to the Bank; and (c) prior to the
commencement of the works, ensure that the owners and users of the land where said
works are to be implemented are fully compensated in accordance with the provisions of
the RAP(s)."
3. The table under paragraph 2, Section IV of Schedule 2 to the Loan Agreement shall be amended to read as follows:

<table>
<thead>
<tr>
<th>“Category”</th>
<th>Amount of the Loan Allocated (Expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (Net of VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Consultants’ Services including Audit, Training and Incremental Operating Costs for the Project</td>
<td>171,171,000</td>
<td>75%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>429,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(3) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount due under Section 2.07 (c) of this Agreement</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>171,600,000</td>
<td></td>
</tr>
</tbody>
</table>

4. Please be advised that the Bank has established September 30, 2016 as the later date for purposes of Section IV B.2 of Schedule 2 to the Loan Agreement.

B. **Supplemental Letter No. 2: Performance Monitoring Indicators:**

With reference to the provisions of Section II.A of Schedule 2 to the Loan Agreement, the performance monitoring indicators shall be amended as set out in the modified Supplemental Letter No. 2, attached to this amendment letter (Annex 2).

Please confirm your agreement to the foregoing by countersigning both copies of this amendment letter and returning one of the countersigned copies to us. Upon receipt by the Bank of the copy of this amendment letter countersigned by you, this amendment letter will become effective as of the date of your countersignature.

Sincerely yours,

[Signature]

Henry G. Kerali
Country Director
South Caucasus Country Unit
Europe and Central Asia Region
CONFIRMED:

REPUBLIC OF AZERBAIJAN

By: [Signature]
Authorized Representative

Name: Samir Sharifov

Title: Minister of Finance

Date: 15 January 2014

Annex 1: Schedule 1
Annex 2: Supplemental Letter No. 2
Annex 1

"SCHEDULE 1

Project Description

The objectives of the Project are to contribute to a more efficient and safer Baku-Shamakhi and Yenikend-Shorsulu roads and higher quality road services as part of the general network upgrading to motorway standard, and to improve the management of the nascent motorway network.

The Project consists of the following parts:

Part A: Motorway Improvement

1. Upgrading the existing two lane Baku-Shamakhi and Yenikend-Shorsulu roads to a four lane motorway and the related road safety activities, through the carrying out of works and the provision of goods and consultants’ services.

2. Provision of consultants’ services for the supervision of the above mentioned road works and the design of priority road investments, including preparation of feasibility and design documents for construction of the M4 Shamakhi-Aghsu road section along the new alignment, to bypass the active landslide and problematic mountainous areas.

Part B: Institutional Development

1. Preparation of a study to explore options for an effective management and operation of Azerbaijan’s motorways, through the provision of consultants’ services and training.

2. Institutional development of the ARS in motorway operation and maintenance by: (a) establishing motorway guidelines; (b) testing a small experimental motorway management unit at ARS; and (c) preparing motorways management and operations strategy, through the provision of goods, consultants’ services and training.

Part C: Project Management

Supporting the Project management capacity of the PIU, through the provision of goods, consultants’ services and training.
Annex 2

Amendment to Supplemental Letter No. 2 to Loan Agreement

REPUBLIC OF AZERBAIJAN

January 15, 2014

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Re: Loan No. 7889-AZ
(Third Highway Project)
Performance Monitoring Indicators

Dear Sirs and Mesdames:

Referring to the provisions of Section II.A of Schedule 2 to the Loan Agreement between the Republic of Azerbaijan (the Borrower) and the International Bank for Reconstruction and Development (the Bank) for the above-captioned Project, the Borrower hereby confirms to the Bank that the amended indicators set out in the attachment to this letter shall serve as a basis for the Borrower to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

REPUBLIC OF AZERBAIJAN

By:

Authorized Representative

Attachment
PERFORMANCE MONITORING INDICATORS

**Project Development Objective (PDO):** To contribute to a more efficient and safer Baku-Shamakhi road and higher quality road services as part of the upgrading to motorway standards, and to improve the management of the nascent motorway network.

**Revised Project Development Objective (PDO):** To contribute to a more efficient and safer Baku-Shamakhi and Yenikend-Shorsulu roads and higher quality road services as part of the general network upgrading to motorway standard, and to improve the management of the nascent motorway network.

<table>
<thead>
<tr>
<th>PDO Level Results Indicators*</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency: Reduction in road user costs from Baku to Shamakhi</td>
<td>%</td>
<td>100</td>
<td>100 100 100 90 80 80</td>
<td>Every year</td>
<td>Technical Reports and Road Data Bank</td>
<td>PIU and ARS</td>
</tr>
<tr>
<td>Efficiency: Reduction in road user costs from Yenikend to Shorsulu</td>
<td>%</td>
<td>100</td>
<td>100 100 100 90 80 80</td>
<td>Every year</td>
<td>Technical Reports and Road Data Bank</td>
<td>PIU and ARS</td>
</tr>
<tr>
<td>Safety: Reduction of Personal Injury per 100-million vehicle-km along the Baku-Shamakhi road</td>
<td>%</td>
<td>100</td>
<td>100 100 100 90 70 70</td>
<td>Every year</td>
<td>Technical Reports and Road Data Bank</td>
<td>PIU and ARS</td>
</tr>
<tr>
<td>Safety: Reduction of Personal Injury per 100-million vehicle-km along the Yenikend-Shorsulu road</td>
<td>%</td>
<td>100</td>
<td>100 100 100 90 90 70</td>
<td>Every year</td>
<td>Technical Reports and Road Data Bank</td>
<td>PIU and ARS</td>
</tr>
<tr>
<td>Quality: Percentage of M Roads in Good and Fair Condition as a share of total M Roads of the network</td>
<td>%</td>
<td>55</td>
<td>57 59 61 65 70 70</td>
<td>Every year</td>
<td>Technical Reports and Road Data Bank</td>
<td>PIU and ARS</td>
</tr>
</tbody>
</table>

**Intermediate Outcome Indicators (Component One)**

<table>
<thead>
<tr>
<th></th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of km upgraded for Baku – Shamakhi road</td>
<td>km</td>
<td>0</td>
<td>0 0 0 0 30 77 77</td>
<td>Every 6 month</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Number of km upgraded for Yenikend-Shorsulu road</td>
<td>km</td>
<td>0</td>
<td>0 0 0 0 20 30 48</td>
<td>Every 6 month</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Roads constructed, non-rural</td>
<td>km</td>
<td>0</td>
<td>0 0 0 0 50 107 125</td>
<td>Every 6 month</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Percentage of safety audits conducted on road accidents recorded during construction stage of Baku – Shamakhi road</td>
<td>%</td>
<td>0</td>
<td>25 60 80 80 80 80</td>
<td>Every 6 month</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Safety audits on detailed design</td>
<td>Yes/No</td>
<td>No</td>
<td>Yes</td>
<td>Every 6 month</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Safety audits on construction completion</td>
<td>Yes/No</td>
<td>No</td>
<td>Yes</td>
<td>Every 6 month</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
</tbody>
</table>

**Intermediate Outcome Indicators (Component Two)**

<table>
<thead>
<tr>
<th></th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design of a Motorway Guidelines</td>
<td>Yes/No</td>
<td>No</td>
<td>Yes</td>
<td>Every 6 months</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Development of a motorways management and maintenance strategy</td>
<td>Yes/No</td>
<td>No</td>
<td>Yes</td>
<td>Every 6 months</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
<tr>
<td>Development of a pilot Motorway Management Unit</td>
<td>Yes/No</td>
<td>No</td>
<td>Yes</td>
<td>Every 6 months</td>
<td>Project Monitoring reports</td>
<td>ARS and PIU</td>
</tr>
</tbody>
</table>