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June 13, 2011

H.E. Samir Sharifov
Minister of Finance
Ministry of Finance
Baku
Republic of Azerbaijan

Re: Azerbaijan: JSDF Grant for Rayon Community and Plumbing Rehabilitation Program (Grant No. TF090657)
Amendment to the JSDF Grant Agreement

Dear Mr. Minister:

We refer to the Grant Agreement between the Republic of Azerbaijan (the “Recipient”) and the International Bank for Reconstruction and Development (“World Bank”), as administrator of grant funds provided by Japan under the Japan Social Development Fund dated September 26, 2007 and countersigned on March 10, 2008 (the “Grant Agreement”). We also refer to the letters from Mr. Abid Sharifov, Deputy Prime Minister, dated August 12, 2010, April 20, 2011 and May 26, 2011, requesting the World Bank to make certain amendments to the Grant Agreement as well as further discussions with the World Bank.

We are pleased to inform you that, after due consideration, the World Bank has agreed to amend the Grant Agreement as follows:

1. Section 2.02 of the Annex to the Grant Agreement is amended to read as follows:

   “2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the Azerbaijan Rehabilitation and Reconstruction Agency (“Project Implementing Entity”) in accordance with the provisions of Article II of the Standard Conditions and this Article II.”

2. Section 2.03 of the Annex to the Grant Agreement is deleted in its entirety and Sections 2.04 and 2.05 thereof are renumbered accordingly as “2.03 Financial Management” and “2.04 Procurement” respectively.

3. The Section 3.01 of the Annex to the Grant Agreement is amended to read as follows:

   “3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of the Standard Conditions, (b) this Section, and (c) such additional instructions as the World Bank may specify by notice to the Recipient
(including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in U.S.$)</th>
<th>Percentage of Expenditures to be Financed (excluding VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants services including audits</td>
<td>160,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods and Civil works</td>
<td>1,700,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Incremental Operating Costs</td>
<td>91,706</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,951,706</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Incremental Operating Costs” means incremental operating costs incurred by the Project Implementing Entity on account of the management of the Project implementation for communications, utilities, printing and publications, office rent, maintenance and supplies, office security systems, vehicle operation and maintenance, local transportation and field trip expenses, training of the staff for the purpose of Project management, remuneration for support staff, including qualified social charges but excluding salaries of civil servants.”

4. Section 3.03 of the Annex to the Grant Agreement is amended to read as follows:

“3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is five years after the date of countersignature of this Agreement by the Recipient.”

5. All the terms and conditions of the Grant Agreement that have not been amended hereby shall remain unchanged and in full force and effect.
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 World 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,

By: /s/ Asad Alam  
Country Director  
South Caucasus Country Department  
Europe and Central Asia Region

CONFIRMED:

REPUBLIC OF AZERBAIJAN

By: /s/ Samir Sharifov

Title: Minister of Finance

Date: June 29, 2011