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

Mr. Sharifov:  

Re: Republic of Azerbaijan: Third Highway Project (Credit Number 4723-AZ)  
Amendment to the Financing Agreement and Supplemental Letter No. 2  

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

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

A. Financing Agreement:  

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

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

"2. For purposes of Part A of the Project, the Recipient 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 Association 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 Association; 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 Association for its approval the site-specific land acquisition and/or resettlement action plan(s) (RAP(s)) in form and substance satisfactory to the Association; 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 A of Schedule 2 to the Financing Agreement shall be amended to read as follows:

<table>
<thead>
<tr>
<th>“Category”</th>
<th>Amount of the Financing Allocated (expressed in SDR)</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>46,200,000</td>
<td>75%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>46,200,000”</td>
<td></td>
</tr>
</tbody>
</table>

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

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

With reference to the provisions of paragraph 1, Section II.A of Schedule 2 to the Financing 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 Association 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,

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

REPUBLIC OF AZERBAIJAN

By: [Signature]

Authorized Representative

Name: Samir Shuftov

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 Financing Agreement

REPUBLIC OF AZERBAIJAN

January 15, 2014

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

Re: Credit No. 4723-AZ
(Third Highway Project)
Performance Monitoring Indicators

Dear Sirs and Mesdames:

This refers to the provisions of paragraph 1, Section II.A of Schedule 2 to the Financing Agreement of this date between the International Development Association (the Association) and the Republic of Azerbaijan (the Recipient) for the above-captioned Project.

The Recipient hereby confirms to the Association that the amended indicators set forth in the attachment to this letter shall serve as a basis for the Recipient to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

REPUBLIC OF AZERBAIJAN

By: [Signature]

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</td>
<td>100</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>Efficiency: Reduction in road user costs from Yenikend to Shorsulu</td>
<td>%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>90</td>
<td>80</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</td>
<td>100</td>
<td>90</td>
<td>70</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</td>
<td>100</td>
<td>90</td>
<td>90</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</td>
<td>59</td>
<td>61</td>
<td>65</td>
</tr>
</tbody>
</table>

**Intermediate Outcome Indicators (Component One)**

| Number of km upgraded for Baku – Shamakhi road | km | 0 | 0 | 0 | 0 | 30 | 77 | 77 | ARS and PIU |
| Number of km upgraded for Yenikend-Shorsulu road | km | 0 | 0 | 0 | 0 | 20 | 30 | 48 | ARS and PIU |
| Roads constructed, non-rural | km | 0 | 0 | 0 | 0 | 50 | 107 | 125 | ARS and PIU |
| Percentage of safety audits conducted on road accidents recorded during construction stage of Baku – Shamakhi road | % | 0 | 25 | 60 | 80 | 80 | 80 | 80 | ARS and PIU |
| Safety audits on detailed design | Yes/No | No | Yes | | | | | | |
| Safety audits on construction completion | Yes/No | No | Yes | | | | | | |

**Intermediate Outcome Indicators (Component Two)**

| Design of a Motorway Guidelines | Yes/No | No | Yes | | | | | | |
| Development of a motorways management and maintenance strategy | Yes/No | No | Yes | | | | | | |
| Development of a pilot Motorway Management Unit | Yes/No | No | Yes | | | | | | |