

FRAMEWORK FINANCING AGREEMENT

(Water Supply and Sanitation Investment Program)

Parties

This Framework Financing Agreement (FFA) dated 15 August 2009 is between the Republic of Azerbaijan (Azerbaijan) and Asian Development Bank (ADB).

MFF Investment Program

Azerbaijan is committed to and will implement the Water Supply and Sanitation Investment Program (Investment Program), which is an integral part of its State Program on Poverty Reduction and Sustainable Development (SPPRSD). The SPPRSD and the Investment Program are described in Schedule 1 hereto.

The SPPRSD portion for the water supply and sanitation (WSS) sector for the period 2009 to 2017 is estimated at about \$2.31 billion. The total cost of the Investment Program, over the same period, is expected to be \$800 million equivalent.

Multi-Tranche Financing Facility

The Multitranche Financing Facility (Facility) is intended to finance projects with one or more of the following component under the Investment Program, provided that such projects comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

The Investment Program comprises:

- (i) an infrastructure component for rehabilitation, reconstruction, and extension of WSS infrastructure (Component A);
- (ii) an institutional effectiveness component for efficiently managing WSS systems (Component B); and
- (iii) a component for technical and management support to the executing agencies to oversee program development and implementation (Component C).

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Azerbaijan, cancel the uncommitted portion of the Facility and withdraw Azerbaijan's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Azerbaijan to request any financing. Azerbaijan has the right not to request any financing under the Facility. Azerbaijan also has the right

at any time to cancel any uncommitted portion of the Facility.

Azerbaijan and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The financing plan for the Investment Program is summarized below.

Financing Source	Total (\$ million)	%
ADB Ordinary Capital Resources	600.0	75
Government	200.0	25
Total (Investment Plan)	800.0	100.0

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

Financing Terms

ADB will provide loans to finance projects under the Investment Program, as and when the projects are ready for financing, provided that Azerbaijan is in compliance with the understandings hereunder and the projects are in line with those same understandings. Each loan will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions and ADB's financing policies, all prevailing on the date of signing of the loan agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

It is anticipated that each tranche will be for an amount of no less than \$75 million.

Commitment charges are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is \$600 million. The loan will cover cost of civil works, equipment and material, institutional development and capacity building, land and resettlement,

physical contingencies, loan financing charges, and part of the consultants costs. It will be provided in individual tranches from ADB's ordinary capital resources¹. It is anticipated that the Investment Program will comprise the following five tranches.

Estimated Financing Plan

(\$ million)

Source	Tranche I	Tranche II	Tranche III	Tranche IV	Tranche V	Total	%
ADB	75	170	180	100	75	600	75
GoA	25	56.7	60	33.3	25	200	25
Total	100	226.7	240	133.3	100	800	100

ADB = Asian Development Bank.

GOA = Government of Azerbaijan

Source: Asian Development Bank estimates.

Availability Period

The last date on which any disbursement under any tranche of this Facility may be made will be 31 May 2018. The last financing tranche is expected to be executed no later than 30 June 2014.

Terms and Conditions

Azerbaijan will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

AzerSu Joint Stock Company (AzerSu) will be the Executing Agency (EA) for the activities under the Investment Program for all projects except those in Nakhchivan Autonomous Republic (Nakhchivan). State Amelioration and Water Management Agency (SAWMA) of Nakhchivan will be the EA for activities in Nakhchivan.

The Executing Agencies will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this FFA, as supplemented with more details in the legal agreements for each tranche.

Periodic Financing Requests

Azerbaijan may request, and ADB may agree, to provide loans under the Facility to finance the Investment Program and its related projects upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by Azerbaijan. Azerbaijan will make available to AzerSu and SAWMA, the proceeds of the tranche in

¹ Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each such Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified being hereinafter called the OCR Loan Regulations).

accordance with the related PFR and the legal agreements for the tranche.

ADB will review the PFRs and if found satisfactory, will prepare the related legal agreements.

The projects for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks and other documents. ADB and Azerbaijan will agree on a Facility Administration Manual and a schedule to initiate these activities, as soon as possible after the date of this Agreement, but prior to the effective date of the legal agreements for the first tranche.

Until notice is otherwise given by Azerbaijan, the AzerSu and SAWMA will be Azerbaijan's authorized representative for purposes of executing PFRs in their respective project areas.

**General
Implementation
Framework**

The Facility will be implemented in accordance with the general implementation framework set out in Schedule 3 hereto.

Procedures

Tranches to be provided under the Facility will be subject to the following procedures and undertakings:

- (a) Azerbaijan will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (b) Azerbaijan will have submitted a PFR in the format agreed with ADB.
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed between the parties.

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) Loan, guarantee, or cofinancing amount;
- (ii) Description of projects to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to the projects;
- (v) Confirmation of the continuing validity of and adherence to the understandings in this FFA;
- (vi) Confirmation of compliance with the provisions under previous legal agreements as appropriate; and

- (vii) Other information as may be required under the Facility Administration Manual or reasonably requested by ADB.

Safeguards Attached at Schedule 5 hereto are references to the safeguards frameworks that will be complied with during the implementation of the Investment Program.

ADB's safeguard policies in effect as of the date of signing of the legal agreements for a tranche will be applied with respect to the projects financed under such tranche.

Procurement All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).

Consulting Services All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

Advance contracting; Retroactive financing Under each tranche, ADB may, subject to its policies and procedures, allow on request: (a) advance contracting; and (b) retroactive financing of eligible expenditures up to 20% of proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. Azerbaijan acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.

Disbursements Disbursements will be made in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

Monitoring, Evaluation, and Reporting Arrangements AzerSu and SAWMA will each establish (through their Project Management Offices (PMOs)) a Program Performance Monitoring System (PPMS) acceptable to ADB within 3 months of the effectiveness of the first loan under the Facility. The PPMSs will help monitor and evaluate the performance of the Investment Program and the projects under each loan of the MFF. They will incorporate a set of performance monitoring indicators relating to outputs and outcomes in the Design and Monitoring Framework (DMF), including service delivery performance, physical implementation, institutional effectiveness milestones. The PMOs will develop baseline data for each of the selected indicators, conduct annual surveys and update ADB on the progress against each indicator.

AzerSu and SAWMA will prepare (through their PMOs) annual reports on the progress against the above performance monitoring indicators, to be submitted to ADB within 30 days after the review period. These reports will incorporate the information provided by relevant SuKanals/JSCs. These reports will also discuss progress made during the period of review, changes if any on implementation schedule, problems or difficulties encountered and remedial actions taken, and

work to be undertaken in the coming quarter.

Undertakings

Attached as Schedule 6 hereto are the undertakings provided by Azerbaijan.

REPUBLIC OF AZERBAIJAN

ASIAN DEVELOPMENT BANK

By _____

Nizameddin Rzayev
President of AzerSu JSC

By _____

Shakeel Khan
Head of Project Administration Unit, CWTC
Central and West Asia Department

SCHEDULE 1

MFF CONSTITUENTS

A. Sector Road Map

1. **Overview.** Improved public infrastructure, sustainable environmental management, and improved public administration and good governance in the country are key strategic goals of the State Program on Poverty Reduction and Sustainable Development (SPPRSD) for 2008-2015. These goals are a continuation of the previous poverty reduction program and the Government of the Republic of Azerbaijan is committed to improving the quality of life of its population by ensuring access to basic utilities, including water supply and sanitation (WSS).

2. **Challenges and Issues for the WSS Sector.** For the water supply services, Azerbaijan inherited a relatively extensive water supply system from the former Soviet Union. Approximately 95% of the population in Baku and about 83% of those living in secondary cities and towns are connected to piped water supply. Whilst coverage appears generally high in comparison to countries of a similar income-level, the quality of infrastructure and services has deteriorated severely over the years as a result of lack of investment and maintenance. Water treatment facilities are very limited and hence, a substantial part of the population do not have access to safe water supply. Moreover, piped water supply is generally unreliable across the country.

3. On sanitation services, approximately 55% of Azerbaijan's population has access to improved sanitation facilities. Access to sanitation facilities in urban areas is higher than in rural areas, with coverage estimated at 73% and 36%, respectively. The sewerage network in Baku serves about 78% of the population. Sewerage coverage in other urban areas is only about 32%, and only a minor portion of the sewerage undergoes any treatment before disposal.

4. As for the public institutions, the WSS sector is faced with: (i) lack of skilled staff in the sukanals and joint stock companies (which carry out WSS services at the local level) to maintain WSS systems; (ii) low capability to develop staff capacity of sukanals and joint stock companies to plan, design and manage WSS services; (iii) challenges in increasing tariffs and overcoming shortfalls in operation and maintenance costs to achieve financial sustainability; and (vi) challenges in management information systems, financial management and accounting practices, and human resource development.

5. **Targets and Action Plans under the SPPRSD.** Taking into account the challenges and issues, the following are targets for the WSS sector under the SPPRSD:

- (i) Provision of reliable and clean water supply in the Baku-Absheron area from 60% to 100% of the population;
- (ii) Creation of a reliable water supply system in regional towns and villages by using local springs and ground water sources, and provision of reliable water supply for 80-85% of population in these towns and villages through a centralized water supply system;
- (iii) Establishment of 80% sewage treatment in large cities.

6. Based on the WSS priorities set in SPPRSD, the investment need for the WSS sector by 2015 is estimated at \$3.5 billion. Approximately \$1.235 billion have been committed by donors

and the Government.² The remaining \$2.31 billion is expected to be met by additional donor support and Government's own. The total cost of the Investment Program (which contributes to the WSS priorities of the SPPRSD) is expected to be \$800 million equivalent.

7. **Sustainable environmental management.** The SPPRSD provides directions to resolve environmental deterioration and improve its management. Priority directions include: (i) sustainable management of water resources; (ii) comprehensive waste management; (iii) improvement of legal and regulatory frameworks, monitoring systems and environmental management resources; and (iv) increasing environmental education and awareness.

8. Good governance and institutional effectiveness. From a WSS sector development perspective, the SPPRSD's focus on decentralization and strengthening of municipalities is critical to increase governance efficiency. SPPRSD includes measures aimed at improving the functioning of municipalities and capacity building at the municipality level:

- (i) Municipal-level legislation to be amended and a relevant review carried out to better define the division of rights and responsibilities between local governing bodies and executive authorities.
- (ii) To strengthen their financial footing, the mechanism for allocating subsidies to municipalities from the state budget will be improved, cooperation to be improved between municipalities and the Ministry of Taxes in the collection of local taxes and duties, and the transfer of official property rights to municipalities to be accelerated.
- (iii) Municipal associations will be established and greater transparency ensured in their financial and economic activities.
- (iv) Training courses to be organized for upgrading the skills of municipal staff and officials, exchange of experience at the local and international levels to be further encouraged, and further training of municipal-level specialists in public education supported.

9. On gender development, SPPRSD states that empowering women and reducing gender inequality is not only a goal, but also a tool of economic development and poverty reduction. Therefore, in all sectors of the SPPRSD, attention has been paid to the way in which the strategy affects the rights and opportunities of both men and women, and gender considerations are addressed in all sectors.

B. Strategic Context

10. Azerbaijan is the fastest growing economy amongst the CWRD countries, and there is an urgent need to upgrade major cities and towns in Azerbaijan to improve living standards in secondary towns. The WSS sector in most of Azerbaijan's secondary towns is characterized by institutional weaknesses, inefficient operations, outdated and dilapidated physical infrastructure, and severe financial constraints. As the Government regards development of the country's regions a priority for national growth ADB considers the WSS rehabilitation and development a strategic priority. Investment in the WSS sector in secondary towns also draws on ADB's track record in infrastructure development and its ability to catalyze public-private partnerships in service delivery.

² The estimates are from the AzerSu Joint Stock Company and the State Amelioration and Water Management Agency, Nakhchivan.

11. The multitranche financing facility (MFF) for the Investment Program affords scope for programmatic, long-term approach to the development of basic urban infrastructure in secondary towns guided by road maps for critical sector and institutional reforms. Notably, the MFF modality: (i) establishes the foundation for an 8-year partnership between the Government and ADB; (ii) combines interrelated physical and non-physical investments; (iii) allows for investments to be sequenced; and (iv) is supported by a sector road and policy framework.

C. Policy Framework

12. **Strategic vision.** The Strategic Vision of the Road Map is to improve the availability, quality, reliability, and sustainability of WSS services in Azerbaijan's regional (rayon) centers and settlements surrounding Baku. The Road Map will comprehensively address the objectives of the following key strategic documents: (i) the ongoing Country Partnership Strategy (CPS); and (ii) the SPPRSD.

13. The proposed Water Supply and Sanitation (WSS) Investment Program (Investment Program) will improve the quality and coverage of urban services in secondary towns, peri-urban areas surrounding Baku, and other centers in the country. Physical outputs will include (i) increased water supply coverage, increased number of connections to piped networks, and reduced system leakage to ensure 24-hour supply of pressurized safe drinking water; and (ii) increased wastewater disposal and treatment. It will benefit approximately 500,000 residents.

14. **Main challenges and operating conditions.** The sector is faced with the following developmental challenges: (i) fiscal constraints; (ii) ability to ensure infrastructure/asset creation on schedule based on limited construction capacity in the country; (iii) lack of skilled staff with sukanals and joint stock companies to maintain WSS systems, especially wastewater treatment plants; (iv) ability to progressively increase tariffs and overcome shortfall in operation and maintenance costs to achieve financial sustainability; (v) ability to ensure environmental sustainability of investments; (vi) ability to develop staff capacity of sukanals and joint stock companies to plan, design and manage WSS services; and (vii) ability to institute good governance practices – management information systems, prudent financial management and accounting practices, human resource development – in service delivery. Overcoming the above challenges is contingent on the reform agenda adopted by the executing agencies – Azersu and SAWMA – and their action plan to progressively improve the environmental, institutional and financial sustainability of WSS services.

15. **Reform agenda.** The WSS sector's reform agenda will: (i) ensure service sustainability through institutional and managerial reforms; (ii) improve efficiencies in service delivery through strengthened management measures, introducing performance-based service contracts, and managing scales of operations by clustering local governments where possible; (iii) improve system accountability through better information flow, decentralized systems and benchmarking costs and performance; and (iv) improve financial management through revenue enhancement measures, budget prioritization, and asset and liability management.

16. A set of sequenced reform actions and sector investments will bring improvements in service delivery. The proposed Investment Program supported by the MFF responds to these needs by adopting a long-term and holistic approach improving institutions, capacities and systems, and service delivery. The Investment Program will finance instruments targeting (i) institutional improvements for WSS service delivery; (ii) capacity development for better system planning, operations and maintenance; (iii) enhanced cost recovery through metering, billing and collection tariffs; (iv) increased efficiency for timely processing of effective WSS projects; (v)

asset management; (vi) introducing a performance benchmarking system; and (vii) a twinning arrangement with an external WSS utility to support capacity development. The investment program also include program management support to help with the gender, safeguards, governance, legal and finance/administration matters; design works for subsequent tranches; and general training and development.

B. Investment Program

1. Sector Investment Need

17. Based on WSS priorities set in SPPRSD, investment need for the WSS sector by 2015 is estimated at \$3.5 billion. Out of this, \$1.235 billion have already been committed by IFIs and the Government (Table 1), and the remaining \$2.310 billion are planned to be mobilized by additional IFIs funding and Government's own resources to meet the development targets of SPPRSD for 2015 (Table 2). The total investments include infrastructure development and management interventions to ensure sector's technical and financial sustainability.

Table 1: Azerbaijan Water and Sanitation Sector Investments Committed by International Financial Institutions (IFI) and the Government (\$ million)

	IFI	Towns	Project	Loan	Grant	Govt
1	ADB – 1	3	39.90	30.00	-	9.90
2	KfW + SECO	2	71.37	48.49	13.00	9.88
3	World Bank - 1	22	310.00	230.00	-	80.00
4	World Bank - 2	21	410.00	260.00	-	150.00
5	JBIC	10	320.00	272.00	-	48.00
6	Natexis Banques Populaires	1	84.00	51.80	-	32.20
	Total	59	1,235.27	892.29	13.00	329.98

Source: AzerSu Joint Stock Company and State Amelioration and Water Management Agency, Nakhchivan estimates.

Table 2: Azerbaijan Water Supply and Sanitation Sector Remaining Investment Need by Components (\$ million)

Sector	Cost	%
Water Supply	809	35
Sanitation	1,455	63
Institutional Development and Capacity Building ^a	46	2
Total	2,310	100

Source: AzerSu Joint Stock Company and State Amelioration and Water Management Agency, Nakhchivan estimates

^a includes project/program management and survey/investigations cost estimates

18. The Government requested the Asian Development Bank (ADB) to extend financing for the Investment Program through a multitranche financing facility (MFF). The MFF totals \$600 million.

19. **Investment program components.** The Investment Program has 3 components. Component A: WSS infrastructure to boost service coverage, quality, and reliability in Agdash, Goychay, Nakhchivan, Agjabedi, Beylagan, Balakan, the peri-urban areas surrounding Baku, and other developing urban centers in the country. Component B: institutional effectiveness, including management and governance. Component C: Program Management Facilities to oversee program implementation and treatment of various themes such as safeguards. The proposed program will meet about 35% of the total investments needs of \$2,310 million (Table 3).

Table 3: Proposed Multitranche Financing Facility for the Urban WSS Investment Program (\$ million)

Component	Item	Cost	%
A.	WSS Infrastructure Development	773	96.6
B.	Institutional Effectiveness	5	0.6
C.	Program Management Facility	22	2.8
Total Investment Program		800	100.0

Source: Asian Development Bank estimates

20. **Performance indicators.** Progress towards achieving the Strategic Vision of the Road Map will be monitored through the following key performance indicators:

- (i) **Availability.** Number of people served by piped water supply and connected to sewerage networks with an operational efficiency of wastewater treatment plant.
- (ii) **Quality.** Percentage of drinking water samples in project area meeting National Water Quality Standards (GOST 2478-82 Potable Water: hygienic conditions and quality control; and SanPin 245-71: sanitary norms on treated Wastewater Effluent Quality discharges).
- (iii) **Reliability.** Daily number of hours of water supply service
- (iv) **Sustainability.** Operating ratio (operating expenditures by collected revenues) of participating water utilities

2. Financing Plan

21. ADB's contribution to the country's WSS investment plan is \$600 million (26% of the total investment needs of \$2.310 million). WSS Sector Financing Plan is in Table 4.

Table 4: WSS Sector Financing Plan (\$ million)

Investment Program Component	Sector Investment Plan	Investment Program	% Share of Investment Plan Allocation
A	Water Supply and Sanitation Infrastructure Development	773 ^a	34.1
B	Institutional Effectiveness	5 ^a	10.9
C	Project Management Facility	22 ^a	47.8
Total Investment Program		800	34.6
Financing Sources			
Asian Development Bank		600	75
Government		200	25

^a These figures are based on indicative estimates for the Investment Program, which will be adjusted based on detailed assessment during processing of each tranche

Sources: AzerSu Joint Stock Company; State Amelioration and Water Management Agency, Nakhchivan; and Asian Development Bank estimates

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

Design Summary	Performance Targets / Indicators	Data Sources / Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved public health and environment in participating towns</p>	<ul style="list-style-type: none"> • Public satisfaction with the availability, quality, and quantity is increased (to be quantified when baseline is established through a social survey at program inception) • Percentage of children under 5 years old suffering from diarrhea in last 30 days reduced to <10% by 2017 • Satisfaction rate by users (disaggregated by men and women) with the quality of water supply and access to sanitation increases from xx% to yy% (to be quantified when baseline is established through a social survey at program inception) 	<ul style="list-style-type: none"> • Azerbaijan State Statistics Committee Reports • Reports of multilateral and bilateral agencies • Semi-annual socioeconomic surveys undertaken as part of the program performance management system • Health Department and hospital reports • Ministry of Ecology and Natural Resources Reports 	<p>Assumption</p> <ul style="list-style-type: none"> • Political and economic stability prevails <p>Risk</p> <ul style="list-style-type: none"> • Lack of maintenance of the completed infrastructure by JSCs and SuKanals
<p>Outcome Improved coverage, and the continuity and quality of water supplies and wastewater disposal in participating towns</p>	<ul style="list-style-type: none"> • Water supply and sewerage services coverage in participating towns increased from existing 80% to 100% in 2017 • Residents of participating towns served by fully pressurized 24-hour supply with water loss reduced from >60% in 2009 to <25% by 2017 • Percentage of wastewater collected and treated increased from <5% in 2009 to 100% by 2017 	<ul style="list-style-type: none"> • Benchmarking data • JSCs/SuKanals consumer database • Town Water Users Associations reports • Program Completion Reports 	<p>Assumptions</p> <ul style="list-style-type: none"> • Government remains committed to take timely decisions for subproject approvals, timely allocating and releasing counterpart funds, and supporting the capacity development needs of the AzerSu/SAWMA and JSCs/ SuKanals • Properly staffed and empowered institutions are able to effectively deliver, operate, and manage municipal services <p>Risks</p> <ul style="list-style-type: none"> • GOA does not give autonomy to allow AzerSu/SAWMA take operational decisions, which delays implementation of institutional reforms

Design Summary	Performance Targets / Indicators	Data Sources / Reporting Mechanisms	Assumptions and Risks
			<ul style="list-style-type: none"> Weak coordination among government departments and with AzerSu/SAWMA undermines sustainable operations.
<p>Outputs</p> <p>A: Water Supply and Sanitation Infrastructure Rehabilitated and Improved</p> <p>A.1 Rehabilitated, replaced, and expanded piped-water supply systems, water works, and treatment facilities in participating towns</p> <p>A.2. Water quality monitoring system developed and implemented</p> <p>A.3 Rehabilitated, replaced and expanded sewerage networks</p> <p>A.4 New wastewater treatment plants constructed in participating towns</p> <p>B. Improved WSS management and planning</p> <p>B.1 Institutions improved for WSS service delivery;</p> <p>B.2 Capacity developed</p>	<ul style="list-style-type: none"> 100% population in program towns have access to safe water supply for 24-hours per day by 2017, with at least 80% of households connected to underground sewerage system Reduced system leakage; unaccounted for water from >60% to <25% by 2017 Water meters installed to all bulk and domestic consumers in the project towns Non-revenue water is reduced from >60% in 2009 to <25% by 2017 in all towns Percentage of wastewater treated in project towns increased from <5% in 2009 to 100% by 2017 Tariff collection efficiency is improved from 40% in 2009 to 90% in 2017 Water quality is monitored and respective actions taken on at least 6-month interval Technical, operational, management, and financial training provided to all service providers in each town 	<ul style="list-style-type: none"> Quarterly progress reports, ADB review mission reports, ADB program completion report, and Benchmarking data AzerSu/SAWMA/JSC technical and financial reports Town Water Users Associations reports Training evaluation reports PPMS reports 	<p>Assumptions</p> <ul style="list-style-type: none"> There are sufficient international and local contractors participating in biddings for works and goods There is political will for efficient implementation of the Program <p>Risks</p> <ul style="list-style-type: none"> Capacity of domestic contractors is exhausted due to several externally-funded ongoing projects Political intervention in procurement decision may delay overall program execution Appropriately qualified staff cannot be found or retained in AzerSu/SAWMA/JSCs/Sukanals Rising energy costs increase cost of pumped systems Tariff increases not supported by consumers <p>Assumptions</p> <ul style="list-style-type: none"> Agreed institutional reforms are implemented political will to manage and monitor program development and

Design Summary	Performance Targets / Indicators	Data Sources / Reporting Mechanisms	Assumptions and Risks
<p>for better system planning, operations and maintenance;</p> <p>B.3 Cost recovery enhanced through metering, billing and collection tariffs;</p> <p>B.4 Efficiency increased for timely processing of effective WSS projects;</p> <p>B.5 Twinning arrangement finalized with an external WSS utility to support capacity development.</p> <p>B.6 Consumers mainstreamed on Investment Program implementation</p>	<p>under the Program</p> <ul style="list-style-type: none"> • Customers data base updated and 100% customers registered and billed by 2017 in all participating towns; • Accounting, budgeting, and billing computerized and bill collection efficiency improved over 85% • Tariff plans developed and progressively revised annually; • asset management implemented and annually updated; • Digitized WSS network maps publicly available; • Sustainable O&M with revenues more than expenditure achieved in all JSCs within 2 years after completion of subprojects; 		<p>implementation continues</p> <ul style="list-style-type: none"> • Trust in urban services provision will be restored with provision of adequate and efficient WSS services. <p>Risks</p> <ul style="list-style-type: none"> • Interdepartmental coordination and support is not forthcoming. • Appropriately qualified staff cannot be found or retained in AzerSu/SAWMA/JSCs/Sukanals
	<ul style="list-style-type: none"> • An O&M manual developed for each participating town; • Customer care units and customer representative groups are established in each participating town; • A simple performance benchmarking system is developed and implemented, and all SUKanals/JSCs attend performance benchmarking workshops • Town water user associations (TWUAs) with 1/3 of women and women neighborhood groups established and trained, for each zone of the towns, and public awareness provided on program implementation, O&M tariffs, and hygiene education; 		

Design Summary	Performance Targets / Indicators	Data Sources / Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • Gender analysis undertaken and gender action plan developed for each tranche within 6 months after approval • Communication strategy developed as part of public outreach program, for information sharing and dissemination 		
C. Program Management Facility established	<ul style="list-style-type: none"> • All programs developed in advance of next tranche, and implemented within the program duration 		<p>Assumption</p> <ul style="list-style-type: none"> • AzerSu and SAWMA clears the design reports on time <p>Risk</p> <ul style="list-style-type: none"> • PMF is established with delayed consultants recruitment
<p>Activities with Key Milestones</p> <p>A.1 Rehabilitation, replacement, and expansion of existing piped-water supply systems, water works, and treatment facilities in participating towns</p> <ul style="list-style-type: none"> • Publicity initiatives for public awareness campaign carried out by month 3 of tranche start • Timely land acquisition and implementation of resettlement plans • Rehabilitation, replacement and new facilities constructed, commissioned, and made operational in phases between month 12 and month 36 • Water meters installed for each household immediately after the installation of piped network <p>A.2 Development of Water Quality Monitoring System at each Sukanal/JSC by month 6 of each tranche commencement</p> <p>A.3 Rehabilitated, replaced and expanded sewerage networks</p> <ul style="list-style-type: none"> • Publicity initiatives for public awareness campaign carried out by month 3 of tranche start • Timely land acquisition and implementation of resettlement plans • Rehabilitation, replacement and new facilities constructed, commissioned, and made operational in phases between month 12 and month 36 <p>A.4 New wastewater treatment plants constructed in participating towns</p> <ul style="list-style-type: none"> • Publicity initiatives for public awareness campaign carried out by month 3 of tranche start • Timely land acquisition and implementation of resettlement plans • Design/build contract for subprojects package by month 6 of tranche start • New facilities constructed, commissioned, and made operational in phases between month 12 and month 36 <p>B. Institutional Effectiveness of JSCs/SuKanals</p> <ul style="list-style-type: none"> • All the required professional staff appointed in AzerSu, SAWMA, and JSCs/SuKanals within 6 month after tranche effectiveness • 100% of SuKanal/JSC staff receives training in their respective areas of expertise within 1 year of tranche effectiveness • Gender analysis undertaken, sex-disaggregated data collected and tranche-specific gender action plan prepared within 6 month of each tranche commencement 			<p>Inputs</p> <ul style="list-style-type: none"> • ADB: \$600 million from OCR • Government: \$200 million

Design Summary	Performance Targets / Indicators	Data Sources / Reporting Mechanisms	Assumptions and Risks
C. Establishment of Program Management Facility (PMF) <ul style="list-style-type: none"> • PMF consultants recruitment starts in advance during the preparation of respective tranche and process is completed by tranche effectiveness • Due diligence of works under subsequent tranche completed during the period of previous tranche 			

ADB = Asian Development Bank, GOA = Government of Azerbaijan, JSC= Joint Stock Company, LFF = Loan Fact-finding, PMF = program management facility, PPMS = Project Performance and Management System; SAWMA = State Amelioration and Water Management Agency; TWUA = Town Water-User Association

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

A. Program Management

1. The Government will appoint AzerSu and SAWMA as the Executing Agencies (EAs) for the Investment Program. AzerSu will be the EA for the activities under the Investment Program in all areas except in the Nakhchivan Autonomous Republic (Nakhchivan). SAWMA will be the EA for activities in Nakhchivan.

2. The Program Management Offices (PMOs) established at AzerSu and SAWMA respectively will be responsible for implementing the Investment Program. The PMOs will comprise international and domestic consultants under the PMFs and the counterpart staff. The EAs will maintain the counterpart staff at PMOs with at least: (i) a program manager/contract management specialist; (ii) a financial management/disbursement specialist; (iii) a WSS/monitoring and evaluation specialist; and (iv) a safeguards expert.

3. The PMOs will: (i) submit the periodic financing requests (PFRs); (ii) undertake due diligence for subsequent projects, prepare detailed designs for future investments, and supervise procurement work and construction; (iii) oversee safeguards and gender compliance; (iv) coordinate among rayon agencies; (v) monitor and evaluate the program progress and prepare progress reports; and (vi) provide expertise in project management, planning, results measurement and training.

4. SuKanals/JSCs will designate a qualified implementation team to work with the PMO during program implementation. This team will include at least: (i) a water supply engineer; (ii) a sewerage specialist; (iii) 3 field inspectors; and (v) 2 electro-mechanical technicians. The PMOs will provide hands-on training during each stage of the program implementation. To further ensure sustainable operation of WSS services, JSCs/SuKanals will be trained through a twinning arrangement with an external WSS utility.

B. Program Coordination

5. In support of the Investment Program, two levels of committees will be established within 3 months of loan effectiveness.

6. At the national level, a program steering committee (PSC) will be established by the Cabinet of Ministers. The PSC will be headed by a high-level official from the Cabinet of Ministers and comprised officials from the Ministry of Finance, the Ministry of Economic Development, the Ministry of Health, AzerSu, SAWMA, and the heads of the rayon administration (for the rayons (towns) involved in the Investment Program). The PSC will provide general policy and strategic oversight, resolve interagency problems; and oversee the overall project implementation. The PSC will meet at least once every 3 months and share with ADB minutes of its meetings.

7. At the field level, a project implementation review committee (PIRC) will be established by the rayon administration for each participating rayon. Each PIRC will be headed by the head of rayon administration and comprised officials from the JSCs/SuKanals, the Town Water Users Associations (TWUAs) and the relevant PMF consultants. The PIRCs will: (i) meet on a monthly basis to review the implementation progress of the projects under their purview; and (ii) ensure

timely resolution of site-specific operational issues. Any unresolved issue may be referred to the relevant EA or the PSC for action.

C. Implementation Period

8. The overall implementation period of the Investment Program is 8 years. It is expected to commence in November 2009 and be completed by November 2017.

D. Procurement

9. All ADB-financed procurement for goods and services will be carried out in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). International competitive bidding (ICB) will be used for civil works contracts estimated to cost \$3 million or more. Civil works contracts estimated to cost less than \$3 million will be procured under national competitive bidding (NCB). Single-stage two-envelope bidding procedure with pre-qualification will be adopted for all ICB and NCB civil works contracts.

10. ICB procedures will be used for procurement of goods and services estimated to cost \$1 million or more. NCB procedures will be followed for procurement of goods and services estimated to cost less than \$1 million. For specialized equipment, such as proprietary software and small materials contracts valued at less than \$100,000, ADB's shopping procedures may be followed.

E. Consulting Services

11. Consulting services will be engaged in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). AzerSu and SAWMA will select and engage the consultants in accordance with the *Guidelines on the Use of Consultants* using quality- and cost-based selection procedure and individual consultant selection procedure as appropriate.

F. Disbursement

12. Proceeds from loans under the MFF will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). Additional disbursement arrangements may be set forth in the loan agreements.

13. To ensure the timely release of loan proceeds and to expedite project implementation, immediately after the effectiveness of each tranche, imprest accounts will be established for AzerSu and/or SAWMA to cover eligible expenditures under the Investment Program. The imprest accounts will be established, managed, replenished and liquidated in accordance with ADB's *Loan Disbursement Handbook* and the agreed detailed arrangements. The total amount to be deposited into the imprest accounts will not exceed the equivalent of 6 months of estimated expenditures or 10% of the loan amounts related to AzerSu and SAWMA respectively, whichever is lower. The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for the Investment Program and to liquidate advances provided into the imprest accounts. Any individual payment to be reimbursed or liquidated under the SOE procedure will not exceed \$100,000. The loan proceeds may also be disbursed directly to the consultants and contractors under the direct payment procedure.

G. Accounting and Auditing

14. AzerSu and SAWMA will maintain separate records and accounts adequate to identify; (i) the goods and services financed from the loan proceeds; (ii) financing resources received; (iii) expenditures incurred on the components for each project; and (iv) the use of Government contribution. These accounts and related financial statements will be audited annually in accordance with sound auditing standards by an independent auditor acceptable to ADB. The audit of the imprest account and statement of expenditure will be carried out as part of the regular annual audit. The auditor's opinion of the examination of the imprest account and statement of expenditure will be separately set out in the auditor's report. AzerSu and SAWMA will submit annual audited reports and related financial statements to ADB within 6 months after the end of each fiscal year during implementation of the Investment Program.

H. Governance and Anticorruption

15. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government, AzerSu and SAWMA. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the activities carried out under the Investment Program. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan regulations and the bidding documents for the Investment Program. In particular, all contracts financed by ADB in connection with the Investment Program will include provisions specifying the right of ADB to audit and examine the records and accounts of AzerSu, SAWMA and relevant JSCs and SuKanal and of all contractors, suppliers, consultants, and other service providers as they relate to the Investment Program. All costs related to such investigations will be borne under the MFF.

16. AzerSu and SAWMA will ensure implementation of the following measures: (i) anticorruption provisions acceptable to ADB will be included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of AzerSu, SAWMA and relevant SuKanal JSCs and all contractors, suppliers, consultants, and other service providers as they relate to the activities carried out under the Investment Program; (ii) all decisions relating to procurement will be made by the Tendering Committee that comprises representatives of the Ministry of Economic Development, Ministry of Finance, and the State Procurement Agency (as observer) and other relevant agencies in accordance with ADB's Procurement Guidelines; and (iii) the supervision consultant will verify the contractors' invoices in accordance with working drawings and contract specifications.

17. AzerSu and SAWMA agreed to take additional measures to improve governance, accountability, and transparency, including (i) independent external auditing of contracts, accounts, and financial statements; (ii) timely disclosure of information on selection of consultants and contractors through local newspapers.

I. Program Monitoring and Evaluation

18. AzerSu and SAWMA will each establish (through their PMOs) a Program Performance Monitoring System (PPMS) acceptable to ADB within 3 months of the effectiveness of the first loan under the MFF. The PPMSs will help monitor and evaluate the performance of the Investment Program and the projects under each loan of the MFF. They will incorporate a set of performance monitoring indicators relating to outputs and outcomes in the DMF, including service delivery performance, physical implementation, management improvement and capacity

development milestones. The PMOs will develop baseline data for each of the selected indicators and conduct annual surveys, and update ADB on the progress against each indicator. For project activities procured under the turnkey and design-build-operate modalities planned following Project 1, key performance indicators satisfactory to ADB will be developed during the preparation of requests for proposals and draft contract documents for such project activities.

19. AzerSu and SAWMA will prepare (through their PMOs) annual reports on the progress against the above performance monitoring indicators, to be submitted to ADB within 30 days after the review period. These reports will incorporate the information provided by relevant JSCs/SuKanals. These reports will also discuss progress made during the period of review, changes if any on implementation schedule, problems or difficulties encountered and remedial actions taken, and work to be undertaken in the coming quarter.

J. Program Review

20. The Government, AzerSu, SAWMA and ADB will jointly review implementation progress of the Investment Program twice yearly. Such reviews will discuss: (i) performance of the components under each project; and (ii) any changes to implementation arrangements or remedial measures needing to be undertaken toward achieving the objectives of project components and overall Investment Program.

21. The Government, AzerSu, SAWMA and ADB will joint conduct a more comprehensive review at midterm of each project. Such reviews will: (i) evaluate the project's scope, design, and implementation arrangements; (ii) evaluate the progress of the WSS infrastructure development, and management improvement and capacity development components; (iii) performance of PMO(s); (iv) identify changes needed in any or all of the above areas; (v) assess the implementation performance against agreed targets in the respective DMF; (v) identify critical issues and constraints, if any; and (vi) recommend adjustments to the project design and/or implementation arrangements, if necessary. Such midterm review will also conduct performance assessment of previous projects to evaluate the achievement of expected development impacts. A similar midterm review of the Investment Program will be undertaken in the fifth year from the date of ADB's approval of the MFF.

22. AzerSu and/or SAWMA will submit to ADB a project completion report (for each individual project) and a completion report for the Investment Program, within 3 months of their physical completion. These reports will provide detailed evaluation of the projects and the Investment Program, respectively, covering: (i) the design; (ii) costs (iii) performance of the contractors and consultants; (iv) social, environmental and economic impacts; (v) economic rate of return; and (vi) such details for each project and the Investment Program as may be requested by ADB.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS

1. For activities to be financed under Component A of the Investment Program the following selection criteria must be satisfied and approval procedure adhered to. Specifically, each proposed activity under Component A will:

- (i) be for constructing, upgrading or rehabilitating water supply and sanitation (WSS) infrastructure under the Investment Program (which takes into account the WSS elements of the State Program on Poverty Reduction and Sustainable Development of Azerbaijan;
- (ii) be in line with approved feasibility assessment meeting the engineering, economic, financial, and safeguards requirements of Azerbaijan and ADB;
- (iii) have been allocated adequate counterpart funding for timely implementation and maintenance upon completion; and
- (iv) have been granted requisite Government approvals and endorsements.

2. Approval procedures for the project proposal for Project 1 will follow the requisite Government and ADB review and approval procedures.

3. For all other proposed projects for financing under the MFF, the approval procedures will be as follows:

- (i) AzerSu and/or SAWMA will review the project proposal to confirm compliance with the selection criteria set forth in paragraph 1 above for activities under Component A and following confirmation, submit the project proposal to the Program Steering Committee (PSC) for endorsement.
- (ii) Following PSC endorsement, AzerSu and/or SAWMA will prepare a Periodic Financing Request (PFR) in a format agreed with ADB and submit it to the Cabinet of Ministers Office for approval. Following approval by the Cabinet of Ministers Office, AzerSu and/or SAWMA will submit the project proposal to ADB.
- (iii) For proposed projects that are added in the course of updating the Government's WSS program, all statutory clearances will be sought prior to the submission of the PFRs to ADB.
- (iv) Subject to satisfactory compliance with the selection criteria set forth in paragraph 1 above for activities under Component A, approval procedures and compliance with ADB's policies, ADB will approve the project proposals.
- (v) AzerSu, SAWMA, and ADB will maintain contact through periodic ADB review missions and quarterly progress reports, and in so doing may effect advanced consultation on PFRs prior to submission to ADB.

SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. The Republic of Azerbaijan (Azerbaijan) will ensure that all the requirements prescribed in this Schedule and the following safeguard frameworks that have been prepared with respect to the Multitranche Financing Facility (MFF) (and of which ADB has been provided full copies and are deemed incorporated herein by reference), are complied with during the processing and implementation of the projects under the MFF:

- (i) the Environmental Assessment and Review Framework (EARF), dated July 2009; and
- (ii) the Land Acquisition and Resettlement Framework (LARF) dated May 2009.

2. The safeguard frameworks cover the MFF-specific information and requirements in accordance with ADB's safeguard policies. They include: (i) the general anticipated impacts of the components or projects likely to be financed under the Facility on the environment, involuntary resettlement and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components and projects; (iii) the requirements and procedures that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and Azerbaijan's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each Periodic Financing Request (PFR), the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed and updated by AzerSu and SAWMA as appropriate to ensure relevance and consistency with applicable laws and regulations in Azerbaijan and ADB's *Involuntary Resettlement Policy* (1995), *Policy on Indigenous Peoples Policy* (1998) and *Environment Policy* (2002), as amended from time to time. Upon the effectiveness of the *ADB Safeguard Policy Statement* (2009) in January 2010, safeguards requirements under that policy will apply (in place of the *Involuntary Resettlement Policy* (1995), the *Policy on Indigenous Peoples* (1998) and the *Environment Policy* (2002)). In the event that there is a discrepancy between the laws and regulations of Azerbaijan and the ADB safeguard policies, the ADB safeguard policies will prevail.

4. In all cases, for each new PFR preparation, Azerbaijan will review ongoing projects to check on the status of compliance with the safeguard frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the components included in the tranche being processed. In any case, if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

Environment

5. Azerbaijan will ensure that each project financed under the MFF is developed, implemented and maintained in accordance with applicable laws and regulations in Azerbaijan, ADB's *Environment Policy* and the EARF.

6. Azerbaijan will ensure that: (i) an Initial Environmental Examinations (IEEs) or Environmental Impact Assessments (EIAs) (as applicable) is prepared for each project financed under the MFF; and (ii) all IEEs/EIAs are approved by Azerbaijan's Ministry of Ecology and Natural Resources and ADB and adhered to during the construction, operation and implementation of such project facilities. Any adverse environmental impacts arising from the construction, operation and implementation of project facilities will be minimized by implementing the environmental mitigation and management measures and other recommendations specified in the EARF and IEEs/EIAs. Any change in project scope will be classified and environmental assessment conducted in accordance with the EARF.

7. Azerbaijan will ensure that prior to the issuance of the bidding document, ADB will have: (i) reviewed and cleared the IEE/EIA of the project, including the environmental management plan (EMP) or its revised version; and (ii) received the Government's approval for the foregoing documents.

8. Azerbaijan will ensure that: (i) the EMP is implemented; (ii) review of the EMP implementation in existing projects will be carried out together with ADB prior to processing additional loans under the MFF, and (ii) annual monitoring reports on projects' environment-related performance are prepared in accordance with the EARF and submitted to ADB.

Land Acquisition and Resettlement

9. Azerbaijan will ensure that each project financed under the MFF is developed, implemented and maintained in accordance with applicable laws and regulations in Azerbaijan, ADB's *Involuntary Resettlement Policy* and the LARF.

10. Azerbaijan will ensure that: (i) all land and rights-of-way required by the projects are made available free and clear in a timely manner from any and all rights and claims of third parties and any other encumbrances (this includes allocation in the Government's budget for the financing of land acquisition and related resettlement costs under the MFF); (ii) upon completion of the detailed design and detailed measurement survey, the land acquisition and resettlement plans (LARPs) will be prepared in full consultation with the affected people and in accordance with the LARF and promptly disclosed to the affected people; (iii) any reports on the implementation of the LARPs from an external monitoring and evaluation agency will be submitted to ADB on periodic basis.

11. Azerbaijan will ensure that: (i) all activities under the LARPs will be completed prior to the issuance of notice for mobilization for civil works; (ii) the LARPs have been disclosed to the affected people and submitted to ADB for review and approval; (iii) negotiations on the land acquisition and resettlement entitlements with the affected people have been completed; and (iv) the affected people have been satisfactorily compensated for their loss through cash payment, land replacement or such other forms of agreed entitlement.

SCHEDULE 6

UNDERTAKINGS

The Republic of Azerbaijan will, and will cause AzerSu and SAWMA to:

- (i) ensure timely implementation of the Investment Program, including: (a) executing the implementing arrangements set out in Schedule 3 to this FFA; (b) making available, promptly as needed, the funds, counterpart staff, facilities and services that are required, in addition to the proceeds of the loans under the MFF; and (c) monitoring and evaluating implementation based on the Design and Monitoring Framework set out in Schedule 2 to this FFA;
- (ii) ensure that all projects financed under the MFF are selected and approved in accordance with the criteria and procedure set out in Schedule 4 to this FFA;
- (iii) ensure that all projects financed under the MFF are developed, implemented and maintained in accordance with the safeguards requirements set out in Schedule 5 to this FFA;
- (iv) ensure that ADB is kept informed on policies and programs related to water supply and sanitation (WSS) services and other policies and programs that will materially affect the financial viability of the projects under the Investment Program;
- (v) In the event that there is: (a) any change in ownership of the projects or facilities all projects financed under the MFF; (b) any sale, transfer or assignment of control or interest in the projects or facilities, or (c) any change in the authority or function of AzerSu or SAWMA over the projects or facilities, ensure that ADB's consent is obtained at least six months prior to the implementation of the change and that any such change will be carried out in a legal and transparent manner.
- (vi) ensure that necessary and qualified staff for AzerSu, SAWMA, the JSCs and SuKanals are engaged for and beyond the duration of the Investment Program;
- (vii) provide the necessary resources to ensure that the facilities established under the Investment Program: (a) are effective and sustainable facilities for the delivery of WSS services; and (b) will continue to be in good condition for and beyond the duration of the Investment Program;
- (viii) ensure that poverty and social analyses are prepared for all tranches under the MFF and that adequate resources are provided for their implementation;
- (ix) implement public consultation and participation plan comprising: (a) a community awareness and participation program; (b) a hygiene and sanitation program; and (c) a training program for town water users associations.
- (x) implement the gender action plan prepared under the Investment Program to encourage gender-balanced consultation and participation in the planning and implementation of the Investment Program;

- (x) ensure that: (a) there is no differential payment for wages between men and women for work of equal value; and (b) civil works contractors do not employ child labor in the construction and maintenance activities in accordance with applicable laws and regulations in Azerbaijan;
- (xi) ensure that following the completion of civil works under each tranche and implementation of tariff measures, funds will be set aside on an annual basis in a special account for O&M expenditures (to achieve financial sustainability for such expenditures); and
- (xii) ensure that SuKanals will be converted to JSCs within 12 months after the completion of civil works under each tranche.