Administration Agreement between Switzerland, acting through the State Secretariat for Economic Affairs, and the International Bank for Reconstruction and Development concerning the Azerbaijan Financial Modernization Project 2 Single-Donor Trust Fund (No. TF072739)

1. The International Bank for Reconstruction and Development (the “Bank”) acknowledges that Switzerland, acting through the State Secretariat for Economic Affairs (“SECO”) (the “Donor”, and together with the Bank, the “Parties” and each a “Party”) agrees, subject to legislative appropriations, to provide the sum of three million United States dollars (US$3,000,000) (the “Contribution”) for the Azerbaijan Financial Modernization Project 2 Single-Donor Trust Fund, No. TF072739 (the “Trust Fund”) in accordance with the terms of this Administration Agreement.

2. The Contribution shall be used to finance the activities set forth in the “Azerbaijan Financial Modernization Project 2 Single-Donor Trust Fund Description” attached hereto as Annex 1, and shall be administered by the Bank on behalf of the Donor in accordance with the terms of this Administration Agreement, including the “Standard Provisions” attached hereto as Annex 2.

3. The Donor shall deposit the Contribution in accordance with the following schedule and in the currency specified in Section 1 above (“Contribution Currency”) into such bank account designated by the Bank (each amount deposited hereinafter referred to as an “Installment”) upon submission of a payment request by the Bank:

   (A) Promptly following countersignature – US$2,200,000
   (B) By November 30, 2018 – US$400,000
   (C) By November 30, 2019 – US$400,000

4. The Contribution is being provided in Installments on the basis of financial needs of the Trust Fund. If the Bank determines, on the basis of the speed of the implementation of the activities and availability of funds in the Trust Fund, that it is necessary to either bring Installments forward or delay them, the Bank and the Donor will discuss and agree to revise the Installment schedule, as confirmed by the Bank to the Donor in writing.

5. When making any deposit, the Donor shall instruct its bank to include in its deposit details information (remittance advice) field of its SWIFT deposit message, information indicating: the amount deposited, that the deposit is made by the Donor for TF072739 (the Azerbaijan Financial Modernization Project 2 Single-Donor Trust Fund), and the date of the deposit (the “Deposit Instructions”). In addition, the Donor shall provide a copy of the Deposit Instructions to the Bank’s Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to +1 (202) 614-1315.

6. Except with respect to the Deposit Instructions, any notice, request or other communication to be given or made under this Administration Agreement shall be in writing and delivered by mail, fax or e-mail to the respective Party’s address specified below or at such other address as such Party notifies in writing to the other Party from time to time:

For the Bank (the “Bank Contact”):

Angela Prigozhina
Project Manager, Senior Financial Sector Specialist
Finance and Markets Global Practice
The World Bank
1818 H Street NW, Washington DC 20433
United States of America
Tel: 202-473-4318
E-mail: aprigozhina@worldbank.org
For the Donor (the “Donor Contact”):

Reto Weyermann
Program Manager
Federal Department for Economic Affairs, Education and Research (EAER)
State Secretariat for Economic Affairs (SECO)
Economic Cooperation and Development Macroeconomic Support
Holzikofenweg 36, CH-3003 Bern
Switzerland
Tel: +41 58 463 50 71
Fax: +41 58 464 09 62
E-mail: reto.weyermann@seco.admin.ch

7. In the event any amounts are to be returned to the Donor under this Administration Agreement, the Bank shall transfer such amounts to the Donor, unless otherwise agreed with the Bank. When making any deposit, the Bank shall include in its deposit details information (remittance advice) field of its SWIFT deposit message, information indicating: the amount deposited, that the deposit is made by the Bank in relation to TF072739 (the Azerbaijan Financial Modernization Project 2 Single-Donor Trust Fund), and the date of the deposit. The Bank shall provide a copy of such information to the Donor.

8. At the date of Bank’s signature of this Administration Agreement, the Indirect Rate (as defined in Annex 1 to this Administration Agreement) is 17%.

9. All annexes hereto constitute an integral part of this Administration Agreement, whose terms taken together shall constitute the entire agreement and understanding between the Donor and the Bank. Unless otherwise specified in an annex hereto, this Administration Agreement may be amended only by written amendment between the Bank and the Donor.

10. Each of the Parties represents, by confirming its agreement below, that it is authorized to enter into this Administration Agreement and act in accordance with these terms and conditions. The Parties are requested to sign and date this Administration Agreement, and upon possession by the Bank of this fully signed Administration Agreement, this Administration Agreement shall become effective as of the date of the last signature.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By:  
Name: Mercy Tembon
Title: Regional Director

Date: November 21, 2016

SWITZERLAND, acting through the State Secretariat for Economic Affairs (SECO)

By:  
Name: IVO GERMANN
Title: HEAD OF OPERATIONS

Date: 25.11.2016
ANNEX 1

Azerbaijan Financial Modernization Project 2 Single-Donor Trust Fund Description

This Annex shall be applicable to and form an integral part of the Administration Agreement for the Trust Fund between the Bank and the Donor.

1. Objectives

The objective of the Trust Fund is to assist the authorities of the Republic of Azerbaijan (the Recipient) to increase financial stability through knowledge sharing and technical assistance for: (i) enhancing financial sector legal and regulatory framework; and (ii) strengthening FIMSA regulatory and supervisory powers and enforcement capacity.

2. Definitions

(a) “ADIF” means Azerbaijan Deposit Insurance Fund, the Recipient’ deposit insurance fund, established and operating under the Recipient’s Law on Deposit Insurance dated August 12, 2007.

(b) “Consolidated Supervision” means the supervision of a financial conglomerate, financial or banking group on a consolidated basis as defined by several international standards; such as those for banking supervision found, *inter alia*, in the following link: [http://www.bis.org/publ/bcbs230.pdf](http://www.bis.org/publ/bcbs230.pdf)

(c) “FIMSA” means the Recipient’s Financial Markets Supervisory Authority, established and operating under the Recipient’s Presidential Decree No 760 dated February 3, 2016 or any successor thereto.

(d) “IADI” means the International Association of Deposit Insurers, an association domiciled in Basel, Switzerland, established in May 2002 and operating in accordance with Swiss law.

(d) “IADI Core Principles” means the Core Principles for Effective Deposit Insurance published by IADI and found in the following link: [http://www.iadi.org/en/core-principles-and-research/core-principles/](http://www.iadi.org/en/core-principles-and-research/core-principles/), as the same may be updated from time to time.

(e) “UBO” means “Ultimate Beneficial Owner”, a natural person or natural persons who exercise ultimate effective control over a legal person, transaction or an arrangement.

2. Activities

2.1. The activities to be financed by the Trust Fund are Bank-executed activities, for which the Bank has implementation responsibility:

(a) *Financial market supervision*

(i) preparation of recommendations and comments for revisions to Azerbaijan’s financial markets supervision legislation and regulations;

(ii) preparation of recommendations for FIMSA supervisory development plans; and
(iii) provision of technical assistance to FIMSA on reform implementation and capacity-building of FIMSA staff in selected core areas, including: prudential supervision (on-site, off-site and problem banks interventions), regulatory reporting and disclosure of information (including on UBOs), assets valuation, risk-based supervision and consolidated supervision.

(b) Bank resolution

Provision of technical assistance, preparation of recommendations for revisions to Azerbaijan’s legislation on bank resolution and liquidation and capacity building for their implementation.

(c) Deposit insurance system

(i) preparation of recommendations for changes to the legal and institutional framework of ADIF for enhanced operations consistent with IADI Core Principles;

(ii) provision of technical assistance to ADIF with a self-assessment of its compliance with IADI Core Principles and comments to ADIF institutional development plan; and

(iii) provision of technical assistance and capacity building to ADIF for the implementation of the recommendations prepared under paragraphs (i) and (ii) above to improve ADIF’s compliance with IADI Core principles, and streamline ADIF’s payout process and contingency financing mechanism.

(d) Consumer protection

(i) preparation of recommendations for revisions to Azerbaijan’s financial market legislation to specify FIMSA’s mandate and expand its enforcement powers in the area of consumer protection; and

(ii) provision of technical assistance to strengthen FIMSA’s market conduct and consumer protection regulations and supervision framework and build capacity of FIMSA staff.

(e) Non-performing loans (“NPL”) resolution

(i) provision of technical assistance to strengthen the regulatory framework for loan classification and loan loss provisioning, collateral valuation, and enforcement; and

(ii) preparation of recommendations for an NPL resolution strategy and proposals for revisions to legislation, including an out of court NPL restructuring process.

2.2 Management and administration activities for the Trust Fund, including but not limited to, supporting Trust Fund related meetings; planning and executing work plans and budgets; managing communications and conducting outreach; disseminating lessons learned; reporting on progress; and monitoring and evaluating the activities.
3. **Eligible Expenditures**

3.1 For Bank-executed activities, the Trust Fund funds may be used to finance:

(a) contractual services;
(b) media, workshops, conferences and meetings;
(c) travel expenses;
(d) short-term consultants and temporaries;
(e) extended term consultants and temporaries; and
(f) staff costs (excluding short term consultants and temporaries, and also excluding extended term consultants and temporaries).

3.2 For purposes of this section: (i) “staff costs (excluding short term consultants and temporaries, and also excluding extended term consultants and temporaries)” includes salaries, benefits and indirect rates charged to the Trust Fund as applicable under Bank policies and procedures; (ii) “extended term consultants and temporaries” includes fees, benefits and indirect rates charged to the Trust Fund as applicable under Bank policies and procedures; and (iii) “short term consultants and temporaries” includes fees and indirect rates charged to the Trust Fund as applicable under Bank policies and procedures.

3.3 The “Indirect Rate” means the indirect rate, defined as a percentage of personnel costs and available at the *World Bank’s Donor center secure website*, as such rate may be revised from time to time by the Bank and applied to this Trust Fund, in accordance with its policies and procedures.

4. **Taxes**

4.1 The foregoing activities and categories of expenditures may include the financing of taxes in accordance with the Bank’s applicable policies and procedures.
ANNEX 2

Standard Provisions

This Annex shall be applicable to and form an integral part of the Administration Agreement for the Trust Fund between the Bank and the Donor, it being understood that any plural references in the annexes to Donors, Administration Agreements, Contributions and pro rata shares shall be read as singular references to the Donor, its Administration Agreement, its Contributions thereunder and the remaining uncommitted balance of the Trust Fund, respectively.

1. Administration of the Contributions

1.1 The Bank shall be responsible only for performing those functions specifically set forth in this Administration Agreement, including its annexes, and shall not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Administration Agreement shall be considered a waiver of any privileges or immunities of the Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved.

1.2 Each Donor’s Contribution (collectively, the “Contributions”) shall be administered in accordance with the Bank's applicable policies and procedures, as the same may be amended from time to time, including its procurement, financial management, disbursement and safeguard policies, its framework to prevent and combat fraud and corruption and its screening procedures to prevent the use of Bank resources to finance terrorist activity, in line with the Bank's obligations to give effect to the relevant decisions of the Security Council taken under Chapter VII of the Charter of the United Nations. The Donors acknowledge that this provision does not create any obligations of the Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to a Donor.

2. Management of the Contributions

2.1 The funds deposited in the Trust Fund shall be accounted for as a single trust fund and shall be kept separate and apart from the funds of the Bank. The funds deposited in the Trust Fund may be commingled with other trust fund assets maintained by the Bank. The Bank, in its capacity as trustee, has legal title to the funds deposited in the Trust Fund.

2.2 The currency in which the funds in the Trust Fund shall be held is United States dollars (the “Holding Currency”).

2.3 Donors agree to deposit their Contributions in the Contribution Currency stated in their respective Administration Agreements. In the case of deposits received in a Contribution Currency other than the Holding Currency, promptly upon the receipt of such amounts and the accompanying Deposit Instructions, the Bank shall convert such amounts into the Holding Currency at the exchange rate obtained by the Bank on the date of the conversion. Where deposits prove to be insufficient to complete activities as a result of exchange rate fluctuations, neither the Bank nor the Donor shall bear any responsibility for providing any additional financing.

2.4 The funds deposited in the Trust Fund may be freely exchanged by the Bank into other currencies as may facilitate their disbursement at the exchange rate obtained by the Bank on the date of the conversion.
2.5 The Bank shall invest and reinvest the funds deposited in the Trust Fund pending their disbursement in accordance with the Bank's applicable policies and procedures for the investment of trust funds administered by the Bank. The Bank shall transfer all income from such investment to the Donor's applicable donor balance account with the Bank.

3. **Accounting and Financial Reporting**

3.1 The Bank shall maintain separate records and ledger accounts in respect of the funds deposited in the Trust Fund and disbursements made therefrom.

3.2 The Bank shall furnish to the Donors current financial information relating to receipts, disbursements and fund balance in the Holding Currency with respect to the Contributions via the World Bank’s Trust Funds Donor Center secure website, which will be updated quarterly. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance in the Holding Currency with respect to the Contributions shall be made available to the Donors via the World Bank's Trust Funds Donor Center secure website.

3.3 The Bank shall provide to the Donors via the World Bank's Trust Fund Donor Center secure website, within six (6) months following the end of each Bank fiscal year, an annual single audit report, comprising (i) a management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (ii) a combined financial statement for all cash-based trust funds together with the Bank's external auditor's opinion thereon. The cost of the single audit shall be borne by the Bank.

3.4 If a Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank's external auditors of the Trust Fund, the Donor and the Bank shall first consult as to whether such an external audit is necessary. The Bank and the Donor shall agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Bank shall arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, shall be borne by the requesting Donor.

4. **Progress Reporting**

4.1 The Bank shall provide the Donors with semi-annual written progress reports by March 31 and September 30. The progress reports shall be provided with reference to the results framework agreed by the Bank and the Donors, as such results framework may be reviewed by the Parties from time to time. Within (6) months of the End Disbursement Date (as defined below), the Bank shall provide to the Donors with a final narrative report for the Trust Fund.

4.2 Any Donor may review or evaluate activities financed by the Trust Fund at any time up to closure of the Trust Fund. The Donor and the Bank shall agree on the scope and conduct of such review or evaluation, and the Bank shall provide all relevant information within the limits of the Bank's applicable policies and procedures. All associated costs, including any costs incurred by the Bank, shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund.
5. **Disbursement; Cancellation; Refund**

5.1 It is expected that the funds deposited in the Trust Fund will be fully disbursed by the Bank by August 31, 2021 (the “End Disbursement Date”). The Bank shall only disburse funds deposited in the Trust Fund for the purposes of this Administration Agreement (other than returns to Donors) after such date to the extent such date is changed in accordance with amendments made to the Administration Agreements of all the Donors. Following the End Disbursement Date, the Bank shall return any remaining balance of the Trust Fund to each Donor in the Holding Currency in the manner specified in its respective Administration Agreement on a pro rata basis with regard to the total funds deposited in the Trust Fund by such Donor relative to the total funds deposited in the Trust Fund by all Donors, all calculated as Holding Currency amounts.

5.2 Any Donor may cancel all or part of such Donor’s pro rata share, and the Bank may cancel all or any Donors’ pro rata shares, upon three (3) months’ prior written notice, of any Contributions (paid and not yet paid) that are not committed pursuant to any agreements entered into between the Bank and any consultants and/or other third parties for the purposes of this Administration Agreement, including any Grant Agreements, prior to the receipt of such notice. In the event of a cancellation, the Bank shall return to the Donor its pro-rata share in the Holding Currency as specified in paragraph 2.2. of this Annex 2; unless otherwise agreed between the Bank and the Donor.

6. **Disclosure; Dispute Resolution**

6.1 The Bank shall disclose the Administration Agreements and related information on this Trust Fund in accordance with the Bank’s Policy on Access to Information. By entering into Administration Agreements, the Donors consent to such disclosure of their respective Administration Agreements and such related information.

6.2 The Donors and the Bank shall use their best efforts to amicably settle any dispute, controversy, or claim arising out of or relating to the Administration Agreements.