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CONFORMED COPY

CREDIT NUMBER 4394-AZ

Financing Agreement

(Second Education Sector Development Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 24, 2008

CREDIT NUMBER 4394 AZ

FINANCING AGREEMENT

AGREEMENT dated September 24, 2008, entered into between REPUBLIC OF AZERBAIJAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fifteen million seven hundred thousand Special Drawing Rights (SDR 15,700,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is the United States Dollars.

ARTICLE III - PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project through MOE in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the Operational Manual and the provisions of Schedule 2 to this Agreement.

3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, the Recipient shall:

- (a) maintain, until the completion of the Project, a Project Account in Manat on terms and conditions acceptable to the Association, to finance its counterpart contribution to the expenditures of the Project;
- (b) deposit into the Project Account the amounts required to cover the Recipient's counterpart contributions for each quarter, as determined by the Recipient and the Association; and
- (c) ensure that the funds deposited into the Project Account shall be used exclusively to finance the Recipient's counterpart contributions to the Project.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following:

- (a) The Operational Manual shall have been amended, suspended, abrogated, repealed or waived, or other legal provisions shall have been enacted, so as to affect materially and adversely in the opinion of the Association, the carrying out of the Project.
- (b) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

- 4.02. The Additional Event of Acceleration consists of the following: any event specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following: the Recipient has, through MoE, adopted an Operational Manual, satisfactory to the Association.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister of Finance.

6.02. The Recipient's Address is:

Ministry of Finance
83 Samed Vurgun Street
Baku AZ1022
Republic of Azerbaijan

Telex:

142116 BNKSL

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

REPUBLIC OF AZERBAIJAN

By /s/ Samir Sharifov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory Jedrzejczak

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) enhance the effectiveness of teaching in general secondary schools; (b) improve learning results in schools which receive new school libraries and where teachers adopt improved teaching practices as a result of in-service training; and (c) improve efficiency of spending on general education.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part A: Supporting the Implementation of the General Education Curriculum and Further Curriculum Reform

1. Supporting curriculum reform and the related sensitization campaigns, through the provision of goods, consultants' services and training.
2. Developing new teaching and learning materials and school libraries through the carrying out of works and the provision of goods, consultants' services and training.

Part B: Modernization of In-service Teacher Training

1. Supporting in-service teacher training for the implementation of the new curriculum, by training teachers, master trainers and rayon education methodologists, through the provision of goods, consultants' services and training.
2. Modernizing in-service teacher training systems by: (a) rehabilitating nine (9) of the in-service teacher training institutions of the Recipient, through the carrying out of works and provision of goods, consultants' services and training; and (b) training teachers to use student-centered learning strategies and information and communications technology (ICT) for pedagogical purposes, through the provision of goods, consultants' services and training.

Part C: Using Student Assessment for Education Quality Improvement

1. Establishing a comprehensive national plan for evaluating education outcomes in the Recipient's education system, through the provision of goods, consultants' services and training.
2. Supporting the nationwide implementation of the new centralized secondary school-leaving examination, through the provision of goods, consultants' services and training.

3. Supporting the development of materials, training modules and resources for school- and classroom-based assessment, through the provision of goods, consultants' services and training.

4. Supporting the Recipient's participation in: (a) the Programme for International Students' Assessment (PISA) of 2009 and 2012; and (b) the Trends in International Mathematics and Science Study (TIMSS) of 2011, through the provision of goods, consultants' services and training.

Part D: Promoting School Readiness

Promoting school readiness of children below the age of six (6), by increasing access to pre-school education services in six pilot rayons, through the provision of goods and training.

Part E: Strengthening Education Policy Development and Management Capacity

1. Strengthening the institutional capacity at the central and rayon levels and supporting the revision of teacher profession policies, through the provision of consultants' services and training.

2. Supporting the expansion of the education management information system (EMIS), through the provision of goods, consultants' services and training.

3. Improving the efficiency of spending on general education, through the development of policy framework and implementation plan for rationalization of school network and the evaluation of pilot reforms using per capita financing, through the provision of goods, consultants' services and training.

4. Conducting a public awareness campaign on education reforms, through the provision of goods, consultants' services and training.

Part F Project Coordination, Monitoring and Evaluation

Assisting MoE and the PCU for the purposes of effective coordination, monitoring and evaluation of the Project, through the provision of goods, consultants' services and training.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall vest the overall responsibility for the implementation of the Project in MoE and shall cause MoE to implement the Project in accordance with the Operational Manual and the EMP. Except as the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the EMP if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.
2. The Recipient, through MoE, shall, by not later than October 30, 2008, establish and thereafter maintain, during the course of Project implementation, PCU with the responsibility to assist MoE in the management, coordination and monitoring of the Project, with a structure and functions agreed with the Association, and sufficient staff with qualifications, experience and terms of reference agreed with the Association.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

The Recipient shall ensure that all measures necessary for the carrying out of the EMP shall be taken in a timely manner and shall include adequate information on the carrying out of such measures in the progress reports referred to in Section II.A of this Schedule.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than two (2) months after the end of the period covered by such report.

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than September 30, 2014.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
<p>(a) National Competitive Bidding, subject to the following additional provisions:</p> <ul style="list-style-type: none"> (i) There shall be no eligibility restrictions based on nationality of bidder; (ii) Pre-qualification shall not be used for simple works procurement and shall be conducted only for large works contracts; (iii) Entities in which the State or a State official owns a shareholding of whatever size shall not be invited to participate in tenders for the Government unless they are and can be shown to be legally and financially autonomous and operate under commercial law; (iv) No national preferences may be applied on the basis of the origin of products or labor; (v) Joint venture partners shall be jointly and severally liable for their obligations; (vi) No “participation fee” shall be required of bidders for the purchase of bidding documents. The only charge shall be equivalent to the cost of producing (copying) the bidding documents; (vii) In the evaluation of bids, bids may not be rejected where they differ substantially from the estimated prices calculated by the procuring entity, except where the bid prices exceed the available budget; (viii) Rebidding shall not be carried out without prior approval of the Bank; (ix) Works contracts of more than eighteen (18) months’ duration shall include appropriate price adjustment provisions; and (x) Prior approval of the Bank shall be required for any modification in the contract scope and conditions during implementation.
(b) Limited Competitive Bidding
(c) Shopping
(d) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection Based on the Consultants’ Qualifications
(d) Single-Source Selection
(e) Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance **65%** (inclusive of Taxes) of Eligible Expenditures, consisting of goods, works, consultants’ services, training and incremental operating costs.
2. For the purposes of this Schedule:
 - (a) the term “incremental operating costs” means the incremental expenses incurred by PCU on account of Project implementation for communications, office supplies and materials, bank charges, vehicles’ insurance, maintenance and repair of vehicles, fuel, administration and distribution costs related to students’ tests and examinations, advertisement related to procurement, eligible social

charges and remuneration for support staff, but excluding salaries of civil servants, and such other expenditures as may be agreed upon by the Association; and

(b) the term “training” means expenses incurred by the Recipient in connection with carrying out training activities under the Project, including travel costs and per diem for local trainees and trainers, study tours, workshops, conferences and non-degree fellowships, rental of facilities and equipment and training materials and related supplies.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is March 31, 2014.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2018 to and including April 15, 2028	1.25%
commencing October 15, 2028 to and including April 15, 2043	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
3. “EMP” means the environmental management plan, dated December 18, 2007, prepared and adopted by the Recipient, describing the environmental mitigation and monitoring measures under the Project.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
5. “Manat” means the national currency of the Recipient.
6. “MoE” means the Ministry of Education of the Recipient.
7. “Operational Manual” means the Project Operational Manual for the carrying out of the Project prepared and adopted by the Recipient, as the same may be amended from time to time with the agreement of the Association.
8. “PCU” means the Project Coordination Unit, established in the Ministry of Education of the Recipient, as referred to in Section I.A.2 of Schedule 2 to this Agreement.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
10. “Procurement Plan” means the Recipient’s procurement plan prepared by MoE for the Project, dated March 11, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated by MoE from time to time in accordance with the provisions of said paragraphs.
11. “Program” means the program designed to undertake a system reform of the Recipient’s educational system and set forth or referred to in the letter dated

April 21, 2003 from the Recipient to the Association, declaring the Recipient's commitment to the execution of such program.

12. "Project Account" means the account referred to in Section 3.03 of this Agreement, maintained by the Recipient in Manat and to be used for financing the Recipient's contribution to Project expenditures.