

**The World Bank**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.  
Washington, D.C. 20433  
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June 14, 2011

H. E. Mr. Samir Sharifov,  
Minister of Finance  
Ministry of Finance  
83, S. Vurgun Street  
Baku 1022  
Republic of Azerbaijan

**Re: Republic of Azerbaijan: Swiss State Secretariat for Economic Affairs  
Trust Fund Grant No. TF098323  
For the Supreme Audit Institution Development**

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Azerbaijan (“Recipient”), I am pleased to inform you that the International Development Association (“World Bank”), acting as administrator of grant funds provided by the Government of the Swiss Confederation for financing the Supreme Audit Institution Development Trust Fund, proposes to extend to the Recipient (“Member Country”), a grant in an amount not to exceed one million eight hundred and sixty five thousand United States Dollars (US\$1,865,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this

Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within sixty (60) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Manoharan Owen  
Country Manager for Azerbaijan  
South Caucasus Country Unit  
Europe and Central Asia Region

AGREED:  
Republic of Azerbaijan

By /s/ Mr. Samir Sharifov

Title: Minister of Finance

Date: June 14, 2011

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010.
- (2) Disbursement Letter dated June 14, 2011 together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

## Article I

### Standard Conditions; Definitions

1.01. *Standard Conditions.* The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. *Definitions.* Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in the Appendix to this Agreement.

## Article II Project Execution

2.01. *Project Objectives and Description.* The objective of the Project is to improve accountability and transparency in managing public resources. The Project consists of: (a) improving external audit function; and (b) developing public internal financial control systems and framework through the provision of goods, consultants’ services and training to the staff of the Chamber of Accounts.

2.02. *Project Execution Generally.* (a) The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the PMU in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in Section II of the Appendix to this Agreement; and (iii) this Article II.

(b) The Recipient shall maintain the PMU with adequate resources, staffing and terms of reference satisfactory to the World Bank until the completion of the Project. The functions of the PMU shall include, inter alia, responsibility for: (a) the procurement process, financial management and the preparation of withdrawal applications under the Project; and (b) monitoring and evaluation of the progress in implementing the Project, in accordance with indicators agreed upon with the World Bank.

2.03. *Project Monitoring, Reporting and Evaluation.* (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar year, and shall be furnished to the World Bank not later than three months after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.

(ii) Audited reports of entities of the central government are submitted to the legislature within twelve months after year end.

(iii) The internal control rules are comprehensive, relevant and widely understood.

(iv) Internal audits are operational for certain government entities.

(c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient shall employ consultants whose qualifications, experience and terms of reference are acceptable to the World Bank in accordance with the provisions of Section 2.06 of this Agreement.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such 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 World Bank not later than six months after the end of such period.

## 2.06. **Procurement**

(a) General. All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods;

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section.

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts which the Bank agrees meet the requirements set forth in the Procurement Guidelines for their use:

(A) National Competitive Bidding, subject to the following additional provisions:

- (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 they 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 Association;

- (ix) works contracts of more than eighteen (18) months' duration shall include appropriate price adjustment provisions; and
  - (x) prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation; and
  - (xi) standard bidding documents approved by the Association shall be used.
- (B) Shopping; and
- (C) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

### **Article III Withdrawal of Grant Proceeds**

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

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods	200,000	100%
(2) Training and Consultants' services including audit	1,665,000	100%
<b>TOTAL AMOUNT</b>	<b>1,865,000</b>	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2012.

#### **Article IV Recipient's Representative; Addresses**

4.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

4.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

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

Telex:

142116 BNKSL

4.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions 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) or  
64145 (MCI)

1-202-477-6391



## **APPENDIX**

### **Definitions and Modifications to the Anti-Corruption Guidelines**

#### **Section I. Definitions:**

1. “Chamber of Accounts” means the budget-finance controlling organization that functions on the basis of the Constitution of Azerbaijan Republic, Law on Chamber of Accounts, its internal charter and other legislation acts.
2. “Ministry of Finance” means the Ministry of Finance of the Recipient or any successor thereto.
3. “PMU” means the Project Management Unit established by virtue of Ministerial Decree No. I-136, dated December 24, 2008 and amended by Ministerial Decree No. I-159, dated December 15, 2009 within the Ministry of Finance of the Recipient, and responsible, inter alia, for the day-to-day management and monitoring of the Project.
4. “Training” means expenses incurred by the Recipient and in connection with carrying out training activities under the Project including travel costs and per diem for local trainees and trainers, study tours and workshops, rental of facilities and equipment and training materials and related supplies.

#### **Section II. Modifications to the Anti-Corruption Guidelines:**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“...(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has

entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”