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CONFORMED COPY

LOAN NUMBER 8096-AZ

Project Agreement

(IDP Living Standards and Livelihoods Project)

between

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

and

REPUBLIC OF AZERBAIJAN SOCIAL FUND
FOR DEVELOPMENT OF IDPs

Dated November 16, 2011

PROJECT AGREEMENT

Agreement dated November 16, 2011, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and REPUBLIC OF AZERBAIJAN SOCIAL FUND FOR DEVELOPMENT OF IDPs (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between REPUBLIC OF AZERBAIJAN (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan 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 Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is its Director.
- 3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:

Telex:

Facsimile:

INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)

3.03. The Project Implementing Entity's Address is:

Republic of Azerbaijan Social Fund for Development of IDPs
57 Tbilisi Avenue
Baku AZ1122
Republic of Azerbaijan

Telephone: Facsimile:

(994-12) 431-87-69 (994-12) 431-82-11

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Saida Bagirli

Authorized Representative

REPUBLIC OF AZERBAIJAN SOCIAL FUND FOR
DEVELOPMENT OF IDPS

By /s/ Ayaz Orujov

Authorized Representative

SCHEDULE**Execution of the Project****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Project Implementing Entity shall carry out the Project in accordance with this Agreement, the Loan Agreement, the Subsidiary Agreement and the Operations Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior written approval of the Bank.
2. For the purpose of carrying out Parts A and B of the Project, the Project Implementing Entity shall: (a) ensure that IDP communities are aware of the Project scope and activities through appropriate communication and information campaigns; (b) ensure that the selection of eligible IDP communities shall be selected in accordance with the eligibility criteria and procedures set forth in the Operational Manual; (c) undertake the social, environmental and technical appraisal of the works at each selected site to ensure that the eligibility and sustainability conditions are in conformity with the Bank's social and environmental safeguard policies as specified in Operational Manual and the EMPF; (d) hire qualified companies to draw up designs for the works; (e) hire qualified contractors to carry out the works, (f) supervise the quality of works performed by the contractors; (g) participate in hand-over meetings with local authorities; (h) ensure the community involvement procedures as set forth in the Operational Manual; and (i) conduct monitoring and evaluation of the activities under Parts A and B of the Project.
3. For the purpose of carrying out Part C of the Project, the Project Implementing Entity shall: (a) select in accordance with the terms of reference set forth in the Operational Manual and enter into contractual arrangements satisfactory to the Bank with the implementing agencies, namely: (i) non-governmental organizations for carrying out Parts C.1 and C.2 of the Project; and (ii) credit unions for carrying out Part C.3 of the Project in accordance with the provisions of the Operational Manual; (b) supervise the quality of activities undertaken by the implementing agencies to ensure they are in accordance with the procedures outlined in the Operational Manual; (c) ensure fiduciary compliance by the implementing agencies with the technical, financial management, disbursement and procurement arrangements outlined in the said contracts; and (d) ensure that the implementing agencies submit the monitoring and evaluation data related to the said activities in accordance with the provisions of the Operational Manual.
4. For the purpose of carrying out Part C.1 and C.2 of the Project, the Project Implementing Entity shall, by not later than four (4) months after the Project

Effectiveness, establish a Selection Committee with composition, functions, responsibilities and terms of reference satisfactory to the Bank. The Selection Committee shall be responsible for evaluating candidates and proposals for eligible activities under the Project in accordance with the provisions of the Operational Manual.

5. For the purpose of carrying out Part C.2 (b) of the Project, the Project Implementing Entity shall make Small Grants to eligible self-help groups to finance income generating activities in accordance with the criteria, conditions and procedures set forth in the Operational Manual, including, *inter alia*, the following: (a) (i) the proposed activities are in compliance with the environmental standards set out in the EMFP, and with all applicable laws and regulations of the Borrower relating to environmental protection; (ii) an environmental screening has been carried out for the proposed activities in accordance with principles set forth in the EMFP; and (iii) if said environmental screening concludes that an EMP is required, said EMP has been prepared by the eligible self-help group and approved by the Project Implementing Entity and the Bank for implementing the proposed activities; (b) the proposed activities are technically feasible, and economically, financially and commercially viable; and (c) the proposed activities have been approved by the Selection Committee.

6. Under Part C.3 of the Project, the Project Implementing Entity shall make Sub-loans to eligible credit unions in accordance with eligibility criteria and procedures acceptable to the Bank as set forth in the Operational Manual for the purpose of on-lending such Sub-loans to eligible Beneficiaries for carrying out Sub-projects. The Project Implementing Entity shall make each Sub-loan under a Sub-loan Agreement with the respective eligible credit union on terms and conditions approved by the Bank; (b) the Project Implementing Entity shall obtain rights adequate to protect its interests and those of the Borrower and the Bank, including the right to: (i) suspend or terminate the right of the eligible credit union to use the proceeds of the Sub-loan, or obtain a refund of all or any part of the amount of the Sub-loan then withdrawn, upon the eligible credit union's failure to perform any of its obligations under the Sub-loan Agreement; and (ii) require each eligible credit union to: (A) cause each Beneficiary to carry out its respective Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower; (B) provide, promptly as needed, the resources required for the purpose; (C) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Sub-project and the achievement of its respective objectives; (D): (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a

manner adequate to reflect the operations, resources and expenditures related to a Sub-project; and (2) at the Bank's or the Borrower's or the Project Implementing Entity's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower, the Bank and the Project Implementing Entity; (F) enable the Borrower, the Bank, and the Project Implementing Entity to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Borrower, the Bank and the Project Implementing Entity all such information as the Borrower or the Bank or the Project Implementing Entity shall reasonably request relating to the foregoing. The Project Implementing Entity shall exercise its rights under each Sub-loan Agreement in such manner as to protect the interests of the Borrower, the Bank and the Project Implementing Entity and to accomplish the purposes of the Loan. Except as the Borrower and the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive any Sub-loan Agreement or any of its provisions.

7. For the purpose of carrying out Part C.3 of the Project, the eligible credit union shall:
 - (a) make Micro-credit to eligible Beneficiaries and appraise, review, approve, and supervise Sub-projects in accordance with the criteria, conditions and procedures set forth in the Operational Manual, including, inter alia, the following eligibility criteria: (i) (A) the proposed Sub-project is in compliance with the environmental standards set out in the EMFP, and with all applicable laws and regulations of the Borrower relating to environmental protection; (B) an environmental screening has been carried out for the proposed Sub-project in accordance with principles set forth in the EMFP; and (C) if said environmental screening concludes that an EMP is required, said EMP has been prepared by the Beneficiary and approved by the Borrower, the Project Implementing Entity and the Bank for implementing the proposed Sub-project; and (ii) the proposed Sub-project is technically feasible, and economically, financially and commercially viable.
 - (b) make each Micro-credit by virtue of a Micro-credit Agreement with the respective Beneficiary on terms and conditions acceptable to the Bank, which shall include the following: (i) the Micro-credit shall be: (A) in an amount not exceeding 5,000 Manat equivalent to any individual Beneficiary or group of connected Beneficiaries, unless otherwise agreed by the Bank; (B) denominated and repayable in Manat; (C) repaid with a maturity and grace period satisfactory to the Bank; and (D) charged interest on the principal amount withdrawn and outstanding from time to time at a rate sufficient to cover the cost of borrowing of the eligible

credit union concerned plus a reasonable risk-adjusted spread and profit margin.

- (c) obtain rights adequate to protect its interests and those of the Borrower, the Project Implementing Entity and the Bank, including the right to:
 - (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Micro-credit, or declare to be immediately due and payable, or obtain a refund of all or any part of the amount of the Micro-credit then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Micro-credit Agreement; and
 - (ii) require each Beneficiary to:
 - (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental standards and practices satisfactory to the Bank and in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of financing proceeds other than the Borrower as well as the requirements set out in the EMPF;
 - (B) procure the goods, works and services to be financed out of the Micro-credit in accordance with the provisions of this Agreement and use such goods, works, and services exclusively for the Sub-project;
 - (C) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project;
 - (D) enable the Borrower, the Project Implementing Entity, the Bank and the eligible credit union to inspect the Sub-project, its operation and any relevant records and documents; and
 - (E) prepare and furnish to the Borrower, the Project Implementing Entity, the Bank and the eligible credit union all such information as the Borrower or the Bank or the eligible credit union shall reasonably request relating to the foregoing.

- (d) exercise its rights under each Micro-credit Agreement in such manner as to protect the interests of the Borrower, the Project Implementing Entity, the Bank and the eligible credit union and to accomplish the purposes of the Loan. Except as the Borrower, the Project Implementing Entity and the Bank shall otherwise agree, the eligible credit union shall not assign, amend, abrogate or waive any Micro-credit Agreement or any of its provisions.

B. Anti-Corruption

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

C. Safeguards

1. The Project Implementing Entity shall carry out the Project in accordance with the provisions of the EMPF. The Project Implementing Entity shall not assign, amend, abrogate or waive the EMPF or any provision thereof, without the prior approval of the Bank.
2. Prior to the commencement of works for each proposed site, the Project Implementing Entity shall ensure that: (a) the related site-specific EMPs are prepared in accordance with the EMPF; (b) the proposed design and site for said works incorporate the provisions of site-specific EMPs; (c) the provisions of said site-specific EMPs are adequately included in the proposed contract for said works; and (d) such works are carried out in accordance with the respective site-specific EMPs. The Bank shall conduct a post-review of the documentation related to the design, contracts and site-specific EMPs for selected works and field visits of such selected works as part of regular Project supervision.

Section II. Project Monitoring, Reporting and Evaluation.

A. Project Reports

The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of the indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later two (2) weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.