

CONFORMED COPY

LOAN NUMBER 8024-AZ

Loan Agreement

(Capital Markets Modernization Project)

between

REPUBLIC OF AZERBAIJAN

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 22, 2011

LOAN NUMBER 8024-AZ

LOAN AGREEMENT

Agreement dated September 22, 2011, between REPUBLIC OF AZERBAIJAN (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank 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 or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twelve million United States Dollars (US\$12,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.05. The Payment Dates are June 15 and December 15 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the SCS in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following: namely that the Project Operations Manual has been amended, suspended, abrogated, repealed or waived without the Bank's prior consent.

ARTICLE V —TERMINATION

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

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.

- 6.02. The Borrower's Address is:

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

Telex:	Facsimile:
142116 BNKSL	99412 4044720 99412 4044721

- 6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(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/ Rufat Jabrayil Aslanli

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Joseph Manoharan Owen

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower in increasing the use of equity and corporate debt as financing and/or investment instruments, through the adoption of an effective capital markets regulatory framework and infrastructure.

The Project consists of the following parts:

Part A: Streamlining and Automating Capital Market Infrastructure

1. Providing support to establish capital market participant advisory groups, through the provision of consultants' services.
2. Establishing a single central independent national depository and consolidated clearance and settlement systems for all securities transactions in Azerbaijan, through the provision of goods and consultants' services.
3. Expanding access to and functionality of the national depository by preparing and issuing new rules and procedures for a participant structure that allows custodians' access alongside broker-dealer participants, through the provision of goods and consultants' services.
4. Increasing automation of the capital market by adopting modern and efficient trading, risk management, clearance, settlement and depository systems, through the provision of goods and consultants' services.
5. Establishing an appropriate capital market guarantee mechanism to ensure timely clearing and settlement of trades, through the provision of consultants' services.
6. Revision of the rules governing the national depository to reduce off-market transactions, through the provision of consultants' services.

Part B: Updating and Strengthening the Legal and Regulatory Framework

1. Conducting a comprehensive review of the existing legal and regulatory framework for capital market and preparing a new capital market law, through the provision of consultants' services.
2. Preparing the executive regulations for the new capital market law and the operating rules of the stock exchange, central depository and the clearing house, through the provision of consultants' services.

3. Adopting new licensing regimes for capital market participants in line with the new capital market law, through the provision of consultants' services.
4. Supporting the SCS and the tax authorities in the development of a policy for a favorable tax environment to attract capital market participants and transactions, through the provision of consultants' services.
5. Supporting the SCS and the relevant competent authorities in the development of a policy and regulatory framework to allow pooled investments by insurance companies, through the provision of consultants' services.
6. Introducing appropriate capital market adequacy and risk assessment methods for capital market participants, through the provision of consultants' services.

Part C: Stimulating Supply

1. Conducting a strategic assessment on the modality of attracting local and foreign issuers to list on the Baku stock exchange, through the provision of consultants' services.
2. Supporting the SCS and the Ministry of Finance to develop the government securities market through the provision of consultants' services.
3. Developing the policy and regulatory framework to improve the corporate debt market, through the provision of consultants' services.
4. Supporting the SCS in developing a corporate education and outreach program on the business advantages of raising funds in the Azeri capital market, through the provision of consultants' services.
5. Preparing a feasibility study for the introduction of exchange traded funds and new financial instruments in the capital market, through the provision of consultants' services.
6. Conducting: (a) an assessment of the impediments in the capital market and demands for introducing public- private partnerships to finance large infrastructure projects; and (b) an analysis of how the Azeri capital market may support privatization by providing organized mechanisms for the bids and sales of shares, through the provision of consultants' services.

Part D: Capacity Building

1. Conducting a training needs assessment and designing a training program to strengthen the capacity of SCS staff as well as developing a knowledge

management system for the SCS, through the provision of consultants' services and Training.

2. Revising SCS's internal systems, policies, structures and procedures in light of the new capital market law and adopting an action plan to strengthen the SCS's systems and operations, through the provision of consultants' services.
3. Strengthening surveillance, enforcement and reporting systems of SCS, through the provision of consultants' services.
4. Supporting the SCS in the development of investment conferences domestically and internationally to attract investors, through the provision of consultants' services.
5. Undertaking a nationwide capital market public awareness campaign, through the provision of consultants' services.
6. Establishing a capital market training center to provide continuous professional training for SCS staff and licensed capital market participants, through the provision of consultants' services and Training.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall vest responsibility of the Project implementation in the SCS and shall cause the SCS to carry out the Project in accordance with this Agreement and the Project Operations Manual. The Borrower shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior written approval of the Bank.
2. The Borrower shall, no later than April 30, 2011, establish and thereafter maintain within the SCS the PIU until completion of the Project with staff, resources and terms of reference satisfactory to the Bank. The functions of the PIU shall include, *inter alia*, responsibility for the procurement process, financial management and the preparation of withdrawal applications under the Project.
3. The Borrower shall, no later than March 31, 2011, establish a monitoring and evaluation system satisfactory to the Bank. The internal audit department of the SCS shall be responsible for the monitoring and evaluation of the progress in implementing the Project, in accordance with indicators agreed upon with the Bank.

B. Anti-Corruption

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

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. The Borrower shall prepare and furnish to the Bank 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 Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Loan 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 Loan 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 Bank 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

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. Other Methods of Procurement of Goods. The following table specifies the methods of procurement, other than International Competitive Bidding, which

may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>	
(a)	National Competitive Bidding, subject to the following additional provisions: <ul style="list-style-type: none">(i) there shall be no eligibility restrictions based on nationality of bidder;(ii) 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;(iii) no national preferences may be applied on the basis of the origin of products or labor;(iv) joint venture partners shall be jointly and severally liable for their obligations;(v) 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;(vi) 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;(vii) rebidding shall not be carried out without prior approval of the Bank;(viii) contracts of more than eighteen (18) months’ duration shall include appropriate price adjustment provisions;(ix) prior approval of the Bank shall be required for any modification in the contract scope and conditions during implementation; and(x) standard bidding documents approved by the Bank shall be used.
(b)	Limited International Bidding
(c)	Shopping
(d)	Direct Contracting
(e)	Commercial Practices acceptable to the Bank

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.

<u>Procurement Method</u>
(a) Least-Cost Selection
(b) Selection Based on Consultants' Qualification
(c) Single-Source Selection
(d) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (Net of VAT)
(1) Goods	4,300,000	100%
(2) Consultants' services including audit and Training	7,600,000	100%
(3) Incremental Operating Costs	70,000	100%
(4) Front-end Fee	30,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(5) Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 2.07(c) of this Agreement
TOTAL AMOUNT	<u>12,000,000</u>	

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, except that withdrawals up to an aggregate amount not to exceed \$150,000 equivalent may be made for payments made prior to this date but on or after March 15, 2011, for Eligible Expenditures under Category (2).
2. The Closing Date is December 31, 2015.

SCHEDULE 3

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each June 15 and December 15, the first installment to be payable on the seventh (7th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the thirtieth (30th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one-twenty fourth (1/24) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. If any one or more installments of principal of the Disbursed Amount would, pursuant to the provisions of paragraph 1 of this Schedule, be payable after December 15, 2029, the Borrower shall also pay on such date the aggregate amount of all such installments.
3. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
4. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency.

APPENDIX

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 and revised in January 2011.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in May 2010.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
5. “Incremental Operating Costs” means the incremental expenses incurred by the PIU on account of reasonable and necessary activities directly related to the Project implementation, management and monitoring, including office supplies, translation costs and support staff salaries, but excluding the salaries of the civil servants, and any other expenditures that may be agreed upon by the Bank.
6. “Ministry of Finance” means the Ministry of Finance of the Borrower or any successor or successors thereto.
7. “PIU” means the Project implementation unit established and operating in accordance with Section I.A.2 of Schedule 2 to this Agreement.
8. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the Bank in May 2010.
9. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated February 10, 2011, 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 from time to time in accordance with the provisions of said paragraphs.
10. “Project Operations Manual” means the operational manual for the Project adopted by the Borrower and SCS acceptable to the Bank, outlining, *inter alia*, the institutional, disbursement, procurement and management arrangements for the implementation of the Project, as the same may be amended from time to time with approval of the Bank, and such term includes any schedules to the Project Operational Manual.

11. “SCS” means the State Committee for Securities of the Borrower, established by virtue of Presidential Decree No. 58 dated December 30, 1998, and restructured pursuant to Presidential Decree No. 52 dated November 19, 2008, and Presidential Decree No. 70 dated March 5, 2009, approving the statute and organizational structure thereof.
12. “Training” means expenditures for Project related training courses, seminars, workshops, study tours and other training activities not included under goods or service providers’ contracts, including costs of training materials, space and equipment rental, travel and per diem costs of trainees and trainers.