

Public Disclosure Authorized

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**CREDIT NUMBER 4034-
AZ**

Project Agreement

(IDP Economic Development Support Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

**AZERBAIJAN REPUBLIC SOCIAL FUND FOR DEVELOPMENT OF
IDPs**

Dated June 3, 2005

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CREDIT NUMBER 4034-AZ

PROJECT AGREEMENT

AGREEMENT dated June 3, 2005, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and AZERBAIJAN REPUBLIC SOCIAL FUND FOR DEVELOPMENT OF IDPs (SFDI).

WHEREAS (A) by the Credit Agreement of even date herewith between Republic of Azerbaijan (the Borrower) and the Association, the Association has agreed to make a Credit to the Borrower in the amount of seven million five hundred thousand Special Drawing Rights (SDR 7,500,000), on the terms and conditions set forth in the Credit Agreement, but only on condition that SFDI agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary agreement to be entered into between the Borrower and SFDI, the proceeds of the Credit provided for under the Credit Agreement will be made available to SFDI on the terms and conditions set forth in said Subsidiary Agreement; and

WHEREAS SFDI, in consideration of the Association's entering into the Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Credit Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) SFDI declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate

administrative, financial, engineering, environmental and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and SFDI shall otherwise agree, SFDI shall carry out the Project in accordance with the Operational Manual and the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) SFDI shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 2.03. (a) SFDI shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, SFDI shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and SFDI, a plan designed to ensure the continued achievement of the Project objectives; and
- (ii) afford the Association a reasonable opportunity to exchange views with SFDI on said plan.

Section 2.04. SFDI shall duly perform all its obligations under the Subsidiary Agreement. Except as the Association shall otherwise agree, SFDI shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any provision thereof.

Section 2.05. (a) SFDI shall, at the request of the Association, exchange views with the Association with regard to progress of the Project, the performance of its obligations under this Agreement, under the Subsidiary Agreement and other matters relating to the purposes of the Credit.

(b) SFDI shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Credit, or the performance by SFDI of its obligations under this Agreement and under the Subsidiary Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) SFDI shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) SFDI shall:

- (i) have its financial statements referred to in paragraph (a) of this Section audited for each fiscal year (or other period agreed to by the Association), in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 3.02. (a) Without limitation upon SFDI's reporting obligations set out in Paragraph B.1 (a) (i) of Schedule 2 to this Agreement, SFDI shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR until the end of such calendar quarter.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Credit Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Association and of SFDI thereunder shall terminate on the date on which the Credit Agreement shall terminate in accordance with its terms, and the Association shall promptly notify SFDI thereof.

Section 4.03. All this provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

International Association 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)	(202) 477-6391

For Azerbaijan Republic Social Fund for Development of IDPs:

Azerbaijan Republic Social Fund for Development of IDPs (SFDI)
65 Fizuli Street, 5th Floor
Baku AZ1014
Republic of Azerbaijan

Telephone:	Facsimile:
(994-12) 495-30-23 (994-12) 495-83-86	(994-12) 495-70-47

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of SFDI may be

SCHEDULE 1

Procurement and Consultants' Services

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$300,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) There shall be no eligibility restrictions based on nationality of bidder and/or origin of goods.

(b) Pre-qualification shall not be used for simple works procurement and shall be conducted only for large works projects.

(c) 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.

(d) No national preferences may be applied on the basis of the origin of products or labor.

(e) Joint venture partners shall be jointly and severally liable for their obligations.

(f) 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.

(g) 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.

(h) Rebidding shall not be carried out without prior approval of the Association.

(i) Works contracts of more than eighteen (18) months' duration shall include appropriate price adjustment provisions.

(j) Prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.

2. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis

of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. 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.

SCHEDULE 2

Implementation Program

A. Project Implementation

SFDI shall carry out the Project in accordance with the provisions of the Operational Manual, including the provisions of EMP, and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual without prior approval of the Association.

B. Progress Reports; Monitoring and Evaluation

SFDI shall:

(a) (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof; and

(ii) furnish to the Association quarterly and annual progress reports which, *inter alia*, shall cover progress in micro-projects implementation, and micro-credit extension and shall include FMR. Each fourth quarterly report shall summarize the results achieved during the year ending with the report and provide work plan and a corresponding budget for the following year.

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 15, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

