

CONFORMED COPY

CREDIT NUMBER 4404 AZ

Financing Agreement

(Additional Financing for Rural Investment Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 20, 2009

CREDIT NUMBER 4404 AZ

FINANCING AGREEMENT

Agreement dated April 20, 2009, entered into between REPUBLIC OF AZERBAIJAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). 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 or in the Appendix to this Agreement.

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 nine million five hundred thousand Special Drawing Rights (SDR 9,500,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Financing Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Financing shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollars.

ARTICLE III - PROJECT

3.01. 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 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) quarterly replenish the Project Account with the amounts required to cover the Recipient's counterpart contributions for each such quarter, as determined by the Recipient and the Association, in a timely manner; 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 Event of Suspension consists of the following:

The Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

4.02. The Additional Event of Acceleration consists of the following:

The event specified in paragraph (a) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

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 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/ Ismet Dursun oglu Abasov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Gregory Jedrzejczak

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve living standards through improved access to infrastructure services for households in rural communities completing Micro-projects.

The Project consists of the same Parts as the Original Project:

Part A: Infrastructure

Provision of grants to Recipients for improving living standards and increasing use of infrastructure services in accordance with the Operational Manual.

Part B: Capacity Enhancement

1. Provision of training and consultants' services to assist selected communities, including Recipients, to build their capacity to implement Part A of the Project.
2. Provision of training and consultants' services to assist the PMU and its ROOs to appraise and supervise Part A of the Project.

Part C: Project Management

Provision of consultants' services, works, auditing services and goods to assist the PMU and its ROOs for the purposes of effective implementation of Project activities.

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

1. The Recipient shall, until the completion of the Project, maintain the PMU and shall ensure that the PMU is adequately staffed by personnel with qualifications and under terms of reference and functions at all times in accordance with procedures necessary and appropriate for the carrying out of the Project, and satisfactory to the Association.
2. The Recipient shall, until the completion of the Project, ensure that the Working Group shall be maintained with broad stakeholder representation satisfactory to the Association.

B. Anti-Corruption

The Recipient shall ensure that all activities under the Project which are financed out of the proceeds of the Financing are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Micro-projects

1. The Recipient shall make Grants to Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Association, which shall include the following:
 - (a) Micro-projects under Part A of the Project shall be made available to:
 - (i) municipalities;
 - (ii) community-based organizations registered as legal entities, which consist of representatives of rural communities with populations of more than 1,000 and less than 10,000 (including clusters of smaller communities that add up to 1,000), eligible under the Operational Manual; and
 - (iii) any other associations and organizations as the Recipient and the Association may agree.

- (b) ROOs shall launch a promotion and outreach campaign, issue requests for Micro-project proposals and assist in the preparation of Micro-project proposals.
- (c) Micro-project Committees formed as part of community mobilization, as defined in the Operational Manual, shall submit proposals of Micro-projects to ROOs on behalf of their respective community.
- (d) ROOs shall appraise and evaluate Micro-project proposals based on the following: (i) impact on the community; (ii) institutional capacity to implement the service intended by the Micro-project; (iii) financing viability; and (iv) technical and environmental safety.
- (e) Any Micro-projects involving land expropriation shall not be eligible for consideration.
- (f) ROOs shall register the results and forward the summary evaluation of proposals to the respective Regional Grant Approval Committee for their approval or rejection. Any members of the Regional Grant Approval Committees who may have a potential conflict of interest in a particular proposal shall recuse themselves from making a decision on that particular proposal.
- (g) The amount of individual grants shall be based upon the estimated cost of goods, works services and operating costs that will be required for the Micro-project, and shall not exceed 90% of the overall costs of Micro-projects.
- (h) The Recipient shall take necessary actions, satisfactory to the Association, to ensure that, where proposals approved by the Regional Grant Approval Committees call for implementation of Micro-projects by community-based organizations that are not already registered as legal entities, the charters of such organizations shall be registered in accordance with the laws of the Recipient in a timely manner.

2. The Recipient shall make each Grant under a Grant Agreement with the respective Beneficiary on terms and conditions approved by the Association, which shall include the following:

- (a) The Beneficiary shall ensure that the grant funds are used exclusively for the purposes specified for the Micro-project approved by the Regional Grant Approval Committee.
- (b) The Beneficiary shall provide no less than 10% of the total cost of the Micro-project, in cash or in kind.

- (c) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to: (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Grant Agreement; and (ii) require each Beneficiary to: (A) carry out its Micro-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of Financing proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Micro-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Micro-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (F) enable the Recipient and the Association to inspect the Micro-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
- (d) The Recipient shall exercise its rights under each Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

D. Safeguards

1. The Recipient shall take or cause to be taken, all measures necessary for the carrying out of the EMP in a timely manner.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report 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:

Procurement Method	
(a)	Shopping
(b)	Direct Contracting
(c)	Community Participation Procedures described in the Operational Manual

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)	Quality-based Selection
(b)	Selection under a Fixed Budget
(c)	Least Cost Selection
(d)	Selection based on Consultants’ Qualification
(e)	Single-source Selection
(f)	Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g)	Sole Source Procedures for the 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 100% of Eligible Expenditures, consisting of works, goods, consultants' services including auditing services, training, grants and incremental operating costs.

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 SDR 950,000 may be made for payments made prior to this date but on or after February 15, 2008, for Eligible Expenditures.
2. The Closing Date is March 31, 2012.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Financing repayable (expressed as a percentage)*
On each April 1 and October 1: commencing April 1, 2018 to and including October 1, 2027 commencing April 1, 2028 to and including October 1, 2042	1.25% 2.5%

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

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.
2. “Beneficiary” means a recipient of a grant under Part A of the Project, meeting the criteria referred to in paragraph 1 of Part C of Section I of Schedule 2 to this Agreement.
3. “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.
4. “EMP” means the environmental management plan, satisfactory to the Association, adopted by the Recipient and submitted to the Association on January 18, 2008, setting forth measures to mitigate any adverse impacts to the environment.
5. “Eligible Social Charges” means the contribution of the PMU to social charges assessed by the Recipient on the employment contracts with the PMU and ROOs.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Grant” means financing of Micro-projects under Part A of the Project in accordance with the Operational Manual.
8. “Incremental Operating Costs” means operating costs incurred by the PMU and ROOs on account of Project implementation for communications, utilities, office supplies and maintenance, fuel and vehicle operation and its maintenance, salaries of support staff, excluding those who are civil servants, eligible social charges and other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the Association.
9. “Micro-project” means a specific development project or activity to be carried out by the Beneficiary, utilizing the proceeds of a grant under Part A of the Project.
10. “Micro-project Committees” means the committees established in rural villages, assisting the villages to identify their priorities in formulating proposals for

grants under Part A of the Project, consisting of approximately five to eleven voluntary members elected by the people in rural village(s).

11. “Operational Manual” means the manual, satisfactory to the Association, revised on February 20, 2008, setting forth the policies and guidelines, as well as comprehensive operating procedures for the Project, including selection criteria and procedures for Part A of the Project and the functioning of the PMU, as the same may be amended from time to time by agreement between the Association and the Recipient.
12. “Original Credit Agreement” means the development credit agreement for a Rural Investment Project between the Recipient and the Association, dated September 23, 2004, as amended to the date of this Agreement (Credit No. 3912 AZ).
13. “Original Project” means the Project described in the Original Credit Agreement.
14. “PMU” means the Project Management Unit established for the purposes of the Original Project, or any successor thereto acceptable to the Association.
15. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 13, 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 from time to time in accordance with the provisions of said paragraphs.
17. “ROOs” means the Regional Operational Offices of the PMU.
18. “Regional Grant Approval Committees” means the committees which review the processing of all registered proposals and approve appraised proposals for the respective region under Part A of the Project, consisting of representatives from local government, local representatives of central government and civil society.
19. “Training” means expenditures incurred for the training activities, including costs of workshops, travel and per diem of trainees.
20. “Working Group” means the committee established for the purposes of the Original Project, including the representatives from the central government, parliament and civil society, providing guidance on operational procedures under the
Project.