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CONFORMED COPY

CREDIT NUMBER 4418-AZ

Financing Agreement

(Social Protection Development Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 28, 2008

CREDIT NUMBER 4418-AZ

FINANCING AGREEMENT

AGREEMENT dated November 28, 2008, entered into between REPUBLIC OF AZERBAIJAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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 sixteen million three hundred thousand Special Drawing Rights (SDR 16,300,000) (variously, “Credit” and “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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Credit 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 Parts A and B of the Project through the MLSPP, and Part C of the Project through the SSPF, in accordance with the provisions of Article IV of the General Conditions and the respective Project Operations Manuals.
- 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 provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Recipient has opened the Project Accounts for Parts A, B and D (1) of the Project, and for Parts C and D(2) of the Project, respectively, on terms and conditions acceptable to the Association, each with an initial deposit in AZN equivalent to \$50,000.
 - (b) The Recipient has adopted the Project Operations Manuals satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

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

Telex:

142116 BNKSL

5.03. 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/ Fizuli Alakbarov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Gregory Jedrzejczak

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve delivery of labor market and social protection interventions through strengthened institutions, enhanced institutional and human resources capacity and improved targeting of social safety net programs.

The Project consists of the following parts:

Component A: Labor Market Reform

1. Improvements in labor market regulation and their dissemination; capacity building in Labor Inspectorates; strengthening capacity to enforce work and occupational safety standards; development of improved occupational classifications and occupational and training standards; development of labor market information system and capacity building for labor market policies formulation and implementation.
2. Strengthening capacity of the National Employment Service to perform its functions and deliver job search and job matching, training and other programs; development of new programs and services; training of staff; and improvement of physical conditions of the National Employment Service' offices and providing them with information and communication technology and software.
3. Development and implementation of programs facilitating "school to work" transition and career counseling services for both youth and adult population.

Component B: MLSP Capacity Building and Social Safety Net Development

1. Establishment of the corporate management integration system (MIS) in the MLSP, and development of evidence based monitoring and evaluation system.
2. Strengthening operations and management of the targeted social assistance (TSA) through: (a) improvements in targeting mechanisms and business processes related to testing eligibility for the TSA; (b) staff training; and (c) assessing the TSA performance and developing proposals for its improvement.
3. Development and implementation of the new organizational, governance and management structure of Disability Certification Service; introduction of the WHO based standards and procedures for disability assessment and certification; and staff training for their implementation.
4. (a) Piloting of the integrated provision of social protection interventions with a particular focus on poor and vulnerable population groups.

Component C: Pension System Development

Provision of technical assistance and support to: (1) perform a comprehensive analysis of the current pension system; (2) formulate several options for the long term development and reform of the pension system and model their fiscal and welfare consequences; (3) prepare a detailed pension system development strategy; (4) develop a detailed implementation action plan for the implementation of the strategy; and (5) implement such action plan.

Component D: Project Management

Provision of technical assistance and financing of incremental operating costs required for implementation of the Project to: (1) the MLSPP; and (2) the SSPF.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall maintain, until completion of the Project, the MLSPPIU and the SSPPIU with resources, staff, facilities, and powers and functions satisfactory to the Association, which shall be responsible for Project implementation, including procurement, financial management, preparation of annual work plans, monitoring and ensuring compliance with the safeguard policies.

2. The Recipient shall maintain during the implementation of the Project the ICT Technical Group within the MLSPPIU, with staff, resources and terms of reference acceptable to the Association.

3. The Recipient shall ensure that the PIUs prepare detailed annual Project implementation plans for their respective Parts of the Project and submit them for the Association's review not later than December 1 of each year of Project implementation, starting from December 1, 2008.

4. The Recipient shall implement the Project in accordance with the provisions of the Project Operations Manuals and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operations Manuals as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project.

5. The Recipient shall: (a) maintain the Project Accounts; and (b) use the funds from the Project Accounts exclusively for financing the expenditures incurred under the Project.

B. Anti-Corruption

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

C. Safeguards

The Recipient shall ensure that the Project activities shall be carried out in accordance with the environmental requirements and mitigation measures set forth in the Project Operations Manuals.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. 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 calendar semester, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.
2. The Recipient shall: (a) prepare and furnish to the Association, on or about September 30, 2011, a report 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 (b) review with the Association, by October 30, 2011, or such later date as the Association shall request, the report referred to in paragraph (a) 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.

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 (6) 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)	National Competitive Bidding, subject to the following additional provisions: <ol style="list-style-type: none"> (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; (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 operate under commercial law; (iv) no national preferences may be applied on the basis of the origin of

<p>products or labor;</p> <p>(v) joint venture partners shall be jointly and severally liable for their obligations;</p> <p>(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;</p> <p>(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;</p> <p>(viii) rebidding shall not be carried out without prior approval of the Association;</p> <p>(ix) works contracts of more than eighteen (18) months’ duration shall include appropriate price adjustment provisions; and</p> <p>(x) prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.</p>
(b) Shopping
(c) Direct Contracting

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) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection based on Consultants' Qualifications
(d) Single-source Selection
(e) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines 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 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 Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Works, Goods, Consultants' Services, Incremental Operating Costs of the MLSPPIU , and Training under Parts A, B, and D(1) of the Project	11,200,000	59 %
(2) Works, Goods, Consultants' Services, Incremental Operating Costs of the SSPF PIU, and Training:		71 %
(a) under Parts C(1) through (4) and D(2) of the Project	1,800,000	
(b) under Parts C(5) and D(2) of the Project	2,300,000	
(3) Unallocated	1,000,000	
TOTAL AMOUNT	<u>16,300,000</u>	

For the purposes of this Section:

(a) the term "Incremental Operating Costs" means the incremental expenses incurred by the PIUs on account of Project implementation for communications, office supplies and materials, bank charges, vehicles insurance, fuel, advertisement related to procurement, eligible social charges and remuneration for support staff, but excluding salaries of civil servants, and such other expenditures as may be agreed upon by the Association; and

(b) the term "Training" means expenses incurred by the Recipient in connection with carrying out training activities under the Project, including the 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.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made: (a) for payments made prior to the date of this Agreement; and (b) for expenditures under Category 2(b) of the table in Part A.2 of Section IV of Schedule 2 to this Agreement, unless the Recipient has furnished to the Association a strategy for the pension system development, including a detailed implementation plan, acceptable to the Association.
2. The Closing Date is September 30, 2013.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 1 and November 1:	
commencing November 1, 2018 to and including May 1, 2028	1.25%
commencing November 1, 2028 to and including May 1, 2043	2.5%

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

APPENDIX**Definitions**

1. “AZN” means the national currency of the Recipient.
2. “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.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “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.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “ICT Technical Group” means the information and communication technology technical group established within the MLSPP
7. “MLSPP” means the Ministry of Labor and Social Protection of the Population of the Recipient, or any successor thereto.
8. “MLSPP PIU” means the Project Implementation Unit within the MLSPP, established through the Ministerial Decree No. 11/8-45 dated April 3, 2006 and the Ministerial Decree No. 11/7-03 dated January 30, 2008.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 10, 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.
11. “Project Operations Manuals” means the manuals satisfactory to the Association, to be adopted pursuant to Section 4.01 (c) of this Agreement, setting forth the operational, maintenance and administrative procedures for the implementation of Parts A and B of the Project, and for Part C of the Project, respectively, as

well as environmental requirements and procedures and adequate mitigation measures.

12. “SSPF” means the State Social Protection Fund of the Recipient, or any successor thereto.
13. “SSPF PIU” means the Project Implementation Unit within the SSPF, established through the Decree No. 103, dated April 2, 2004.
14. “WHO” means the World Health Organization.