

Public Disclosure Authorized

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CREDIT NUMBER 4395 AZ

Financing Agreement

(Additional Financing for IDP Economic Development Support Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 15, 2008

Public Disclosure Authorized



FINANCING AGREEMENT

Agreement dated May 15, 2008, entered into between REPUBLIC OF AZERBAIJAN (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to 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 six hundred thousand Special Drawing Rights (SDR 9,600,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 April 1 and October 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 cause the Parts A and C of the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 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.
- 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) deposit into the Project Account the amounts required to cover the Recipient's counterpart contributions for each quarter, as determined by the Recipient and the Association; 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 Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

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

The event specified in 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 - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) The Project Implementing Entity has adopted the revised Operational Manual, satisfactory to the Association.

- 5.02. The Additional Legal Matter consists of the following:

The Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

- 5.03. 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/ Ali Shamil oglu Hasanov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory Jedrzejczak

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve living conditions for IDPs, through demand- driven community based infrastructure and service micro-projects.

The Project consists of the Original Project.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Subsidiary Agreement**

1. To facilitate the carrying out of the Parts A and C of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association (“Subsidiary Agreement”).
2. The Recipient shall exercise its rights under the Subsidiary 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 the Subsidiary Agreement or any of its provisions.

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.

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 (1) calendar 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 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 (1) 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)	<p>National Competitive Bidding, subject to the following additional provisions:</p> <ul style="list-style-type: none"> (i) there shall be no eligibility restrictions based on nationality of bidder and/or origin of goods; (ii) pre-qualification shall not be used for simple goods and works procurement and shall be conducted only for large works projects; (iii) 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; (iv) no national preferences may be applied on the basis of the origin of products or labor; (v) joint venture partners shall be jointly and severally liable for their obligations; (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; (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; (viii) rebidding shall not be carried out without prior approval of the Association; (ix) works contracts of more than eighteen (18) months’ duration shall include appropriate price adjustment provisions; and (x) prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.

(b) Shopping, subject to the provisions 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) 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 Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Works and Goods	8,100,000	72%
(2) Consultants’ Services, including Audit	210,000	75%
(3) Training	80,000	75%
(4) Operating Costs	890,000	75%
(5) Unallocated	320,000	
TOTAL AMOUNT	9,600,000	

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.
2. The Closing Date is December 31, 2011.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 1 and October 1:	
commencing April 1, 2018 to and including October 1, 2027	1.25%
commencing April 1, 2028 to and including October 1, 2042	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. “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. “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 by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “EMP” means the Environmental Management Plan, dated December 1, 2004, setting forth the framework of procedures and measures to mitigate any adverse impacts to the environment and incorporated into the Operational Manual.
5. “Eligible Social Charges” mean the contribution of the Project Implementing Entity to social charges assessed by the Recipient on the consultant’s contracts with the Project Implementing Entity, and social charges for the Project Implementing Entity’s staff who are employed for the purpose of the Project.
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. “Manat” means the currency of the Recipient.
8. “Operating Costs” means incremental operating and maintenance costs incurred by the Project Implementing Entity on account of management of Project implementation for communications, utilities including electricity, bank charges, printing and publications, office rent maintenance, repair and supplies, office security systems, vehicle operation, fuel and maintenance, salaries of the Project Implementing Entity’s staff employed for the purpose of the Project, excluding those who are civil servants, eligible social charges, transportation and field trip expenses, insurance for office equipment and vehicle, all for the purpose of Project management, as such other expenditures as may be agreed upon by the Association.
9. “Operational Manual” means the manual adopted by the Project Implementing Entity, dated October 31, 2005 and revised pursuant to Section 5.01 (b) of this Agreement, setting forth the procedures for the implementation of the Project which may be amended from time to time with the agreement of the Association.

10. “Original Financing Agreement” means the development credit agreement for a IDP Economic Development Support Project between the Recipient and the Association, dated June 3, 2005, as amended to the date of this Agreement (Credit No 4034-AZ).
11. “Original Project” means the Project described in the Original Financing Agreement.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated January 25, 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.
14. “Project Account” means the project account used for the Recipient’s counterpart financing for the Project, referred to in Section
15. “Project Implementing Entity” means the Republic of Azerbaijan Social Fund for Development of IDPS (SFDI), an autonomous public agency of the Recipient, established pursuant to its Charter, or any other successor thereto.
16. “Project Implementing Entity’s Legislation” means the Charter of the SFDI, dated December 6, 1999, as amended to the date of this Agreement.
17. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.