Financing Agreement

(Public Investment Capacity Building Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 1, 2009
FINANCING AGREEMENT

AGREEMENT dated October 1, 2009, 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 five million four hundred thousand Special Drawing Rights (SDR 5,400,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 15 and October 15 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 the Project through MoE 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 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, through MoE, approved the Operational Manual, satisfactory to the Association.

(b) The Recipient has, through MoE, selected and appointed a Training Advisor for the Project with terms and conditions, satisfactory to the Association.

(c) The Recipient has established the Project Steering Committee under the Cabinet of Ministers, satisfactory to the Association.

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

4.03.  For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01.  The Recipient’s Representative is its 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 248423 (MCI) 1-202-477-6391
Washington, D.C.

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

REPUBLIC OF AZERBAIJAN

By: /s/ Misir Mardanov
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Asad Alam
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to improve the quality and efficiency of preparation and implementation of investment projects in key priority sectors.

The Project consists of the following parts:

Part A: Thematic Capacity Building

Provision of technical assistance, training, goods and works to improve the capacity of government ministries and agencies in the preparation and implementation of: (a) investment projects; and (b) developing the environmental and social safeguards.

Part B: Sector Specific Capacity Building

Provision of technical assistance, training, goods and works to improve technical knowledge and skills in: (a) the road sector; (b) the water supply and sanitation sector; and (c) other sectors based on demand.

Part C: Activities in Support of Capacity Building

Provision of technical assistance, training and goods to improve the effectiveness of the training and capacity development activities under the Project.

Part D: Project Implementation

Provision of goods, technical assistance and training, including incremental operating costs, to the PCU to assist in the Project implementation.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient, through the MoE shall be responsible for the overall Project implementation and management with due diligence and efficiency and in accordance with the Operational Manual. Except as the Association shall otherwise agree, the Recipient may not amend or waive any provision of the Operational Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. The MoE, shall appoint and maintain a program coordinator to oversee the implementation of the Project and coordinate between the PSC and MoE.

3. The Recipient shall maintain a PSC comprising of representatives of the MoE, the Ministry of Finance, the Ministry of Economic Development, the Ministry of Justice, the Ministry of Transport, AzerSu and other entities as designated. The PSC shall be responsible for providing strategic policy direction to the Project, and ensuring good coordination of the Project activities.

4. The Recipient, through MoE, shall maintain the PCU during the Project implementation with staff whose qualification and terms of reference shall be satisfactory to the Association and resources adequate to enable it to effectively implement the Project. The PCU shall be responsible for: (a) the financial and procurement management of the Project; and (b) in collaboration with the Training Advisor, reporting on progress in the implementation of the Project and of its monitoring and evaluation frameworks and managing the Project.

5. For the purpose of overall training responsibilities, MoE shall maintain a Training Advisor to be responsible for the training and capacity building activities and the day to day technical oversight of the Project.

6. The Training Advisor and the PCU shall report to the program coordinator.

7. The Recipient, through the MoE, shall furnish to the Association, for its review and approval, an annual program of activities under the Project no later than October 1st of each year.

8. The Recipient, through MoE, shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than twenty four (24)
months as at the Effective Date of this Agreement, a report integrating the results of the monitoring and evaluation activities performed pursuant to Section II.A of this Schedule, 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.

9. The Recipient, through the MoE, shall, no later than three (3) months as at the Effective Date of this Agreement appoint an independent auditor under terms of reference, satisfactory to the Association.

B. Anti-Corruption

The Recipient 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 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 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.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six (6) months after the Closing Date.

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. 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 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

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 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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the following additional provisions:</td>
</tr>
<tr>
<td>(i) there shall be no eligibility restrictions based on nationality of bidder;</td>
</tr>
<tr>
<td>(ii) pre-qualification shall not be used for simple works procurement and shall be conducted only for large works contracts;</td>
</tr>
</tbody>
</table>
### Procurement Method

| (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 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

### 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**

<table>
<thead>
<tr>
<th>(a)</th>
<th>Single Source Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>Selection Based on Consultant’s Qualification</td>
</tr>
<tr>
<td>(c)</td>
<td>Individual Consultants</td>
</tr>
</tbody>
</table>

**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 Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Consultants’ Services, including Audit and Training and Incremental Operating Costs for the Project</td>
<td>5,400,000</td>
<td>80%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>5,400,000</td>
<td></td>
</tr>
</tbody>
</table>
For the purpose of this Schedule:

(a) the term “Incremental Operating Costs” means the incremental expenses incurred by the PCU on account of reasonable and necessary activities directly related to the Project implementation, management and monitoring, including office supplies, travel and salaries, but excluding the salaries of the civil servants, and any other expenditures that may be agreed upon by the Association.

(b) the term “Training” means expenditures incurred by the Recipient and the PCU in connection with carrying out training activities under the Project including travel costs and per diem for local trainees and trainers, study tours and workshops, rental of facilities and equipment and training materials and any other expenditures that may be agreed upon by the Association.

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 541,000 may be made for payments made prior to this date but on or after June 1, 2009 for Eligible Expenditures under Category (1).

2. The Closing Date is March 31, 2014.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit Repayable (Expressed as a Percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15 commencing October 15, 2019 to and including April 15, 2029</td>
<td>5%</td>
</tr>
</tbody>
</table>

* 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

Section I. Definitions


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.

6. “Ministry of Economic Development” means the Ministry of Economic Development of the Recipient or any successor or successors thereto.

7. “Ministry of Finance” means the Ministry of Finance of the Recipient or any successor or successors thereto.

8. “Ministry of Justice” means the Ministry of Justice of the Recipient or any successor or successors thereto.

9. “Ministry of Transport” means the Ministry of Transport of the Recipient or any successor or successors thereto.

10. “MoE” means the Ministry of Education of the Recipient who is responsible for the implementation of the Project or any successor or successors thereto.

11. “Operational Manual” means the operational manual of the Recipient, acceptable to the Association and referred to in Section 4.01(a) of this Agreement, describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Recipient and including, inter alia: (i) procedures governing administrative, procurement, accounting, financial management, and monitoring and evaluation
arrangements; and (ii) sample formats for annual reports; as the same may be amended from time to time with the agreement of the Association.


13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 21, 2009 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 by MoE, from time to time in accordance with the provisions of said paragraphs.

14. “Project Coordination Unit” or “PCU” means the unit of the MoE of the Recipient and referred to in Section I. A of Schedule 2 to this Agreement.

15. “PSC” means the Project Steering Committee of the Recipient referred to in Section 4.01(c) of this Agreement.

16. “Training Advisor” means an advisor for capacity building and training activities under the Project, selected and appointed under terms and conditions acceptable to the Association and referred to in Section I. A of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

   “Section 2.07. Refinancing Preparation Advance

   If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”
2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. Suspension by the Association

... (l) Ineligibility. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”