

CONFORMED COPY

November 21, 2011

H.E. Beatrice Maser Mallor
Ambassador
Economic Development Corporation
State Secretariat for Economic Affairs
Holzikofenweg 361
CH – 3003 Berne
Switzerland

Trust Fund Administration Agreement between the Government of the Swiss Confederation and the International Bank for Reconstruction and Development and the International Development Association concerning the Single-Donor Trust Fund to Support the Financial Sector Modernization Project (TF No.071730)

Excellency:

1. We are pleased to acknowledge on behalf of the International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) (collectively, the “Bank”) that in pursuance to the Cofinancing, Technical Assistance and Consultant Trust Fund Framework Agreement between the Government of the Swiss Confederation (“Switzerland”) and the Bank dated April 30, 1997 as amended, Switzerland represented by the State Secretariat for Economic Affairs (SECO) (the “Donor”) shall make available as a grant the sum of four million United States dollars (US\$4,000,000) (the “Contribution”) for the Trust Fund to support the Republic of Azerbaijan (the “Recipient”) Financial Sector Modernization Project (the “Trust Fund”) in accordance with the terms of this Agreement.

2. Activities and Expenditures Financed by the Contribution

The Contribution shall be used to finance the activities and the categories of expenditure set forth in the “Description of Activities and Expenditures under the Trust Fund to Support the Financial Sector Modernization Project in the Republic of Azerbaijan” attached hereto as Annex 1, and shall be administered by the Bank on behalf of the Donor in accordance with the terms of this Agreement

3. Administration of the Contribution

3.1. The Bank shall be responsible only for performing those functions specifically set forth in this Agreement and shall not be subject to any other duties or responsibilities to the Donor, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing

in this Agreement shall be considered a waiver of any privileges or immunities of the IBRD and IDA under their Articles of Agreement or any applicable law, all of which are expressly reserved.

3.2. The Contribution shall be administered in accordance with the Bank's applicable policies and procedures, as the same may be amended from time to time, including its framework to prevent and combat fraud and corruption and its screening procedures to prevent the use of Bank resources to finance terrorist activity, in line with the Bank's obligations to give effect to the relevant decisions of the Security Council, taken under Chapter VII of the Charter of the United Nations. The Donor acknowledges that this provision does not create any obligations of the Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to the Donor, nor shall it be deemed a waiver, express or implied, of any of the privileges and immunities of the Bank.

4. Deposit of the Contribution

4.1. The Donor shall deposit the Contribution into such bank account designated by the Bank promptly following countersignature of this Agreement by the Donor and submission of a payment request by the Bank in installments in accordance with the following schedule:

- (a) First installment, US\$1,000,000 promptly following countersignature of this Agreement by the Donor and submission of a payment request by the Bank;
- (b) Second installment, US\$850,000: Twelve months following countersignature of this Agreement by the Donor, upon: (i) Bank's review of draft proposal of laws and Central Bank of Azerbaijan's regulations and consumer protection disclosure formats, (ii) Bank's review of the terms of reference for AzerPost 2011 external audit, and (iii) submission of Bank's project-related reporting requirements, and (iv) submission of a payment request by the Bank;
- (c) Third installment (US\$950,000): Twenty-four months following countersignature of this Agreement by the Donor, upon: (i) Bank's review of consumer protection disclosure formats for securities and insurance sectors and rebranding strategy and related Action Plan by AzerPost, (ii) submission of Bank's project-related reporting requirements; and (iii) submission of a payment request by the Bank;
- (d) Fourth installment (US\$700,000): Thirty-six months following countersignature of this Agreement by the Donor, upon: (i) the Bank delivering financial literacy initiatives; (ii) submission of Bank's project-related reporting requirements; and (iii) submission of a payment request by the Bank; and

- (e) Fifth installment (US\$500,000): Forty-eight months following countersignature of this Agreement by the Donor, upon: (i) positive evaluations of Consumer Protection and Financial Literacy outcomes; (ii) submission of Bank's project-related reporting requirements; and (iii) submission of a payment request by the Bank.

4.2. When making each such deposit, the Donor shall instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Donor for Trust Fund Number TF071730 to support the Azerbaijan Financial Sector Modernization Project, and the date of the deposit (the "Deposit Instruction"). In addition, the Donor shall provide a copy of the Donor's Deposit Instruction to the Bank's Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to (202) 614-1315.

5. Commingling, Exchange and Investment of the Contributions

5.1. The Contributions shall be accounted for as a single trust fund and shall be kept separate and apart from the funds of the Bank. The Contributions may be commingled with other trust fund assets maintained by the Bank.

5.2. The Contributions may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

5.3. The Bank shall invest and reinvest the Contributions pending their disbursement in accordance with the Bank's policies and procedures for the investment of trust funds administered by the Bank. The Bank shall credit all income from such investment to the Donor Balance Account.

6. Administrative Cost Recovery

6.1. In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank under this Agreement, the Bank may, following deposit of the Contribution, deduct and retain for its own account an amount equal to two percent (2%) of each Contribution. In addition, costs for project management up to a maximum of three percent (3%) of each Contribution will be charged to the Trust Fund. If the contributions increase beyond what was originally expected at the time of countersignature of this Agreement, and the administrative costs increase as a result, the Donor acknowledges that an additional administrative fee may be applied to such new contributions.

7. Grant to Recipient

7.1. The Bank shall, as administrator of the Trust Fund on behalf of the Donor, enter into a grant agreement (the "Grant Agreement") with the Recipient consistent with the purposes of this Agreement and on the terms and conditions set forth in the Grant

Agreement. Grant Agreement may be entered into up to the maximum amount of the Contributions that the Donor has agreed to make available under this Agreement. Upon request by the Donor, the Bank shall furnish a copy of the Grant Agreement to the Donor.

7.2. The Bank shall be responsible for the supervision of the activities financed under the Grant Agreement. Subject to the consent of the Recipient, representatives of the Donor may be invited by the Bank to participate in Bank supervision missions related to the Trust Fund.

7.3. The Bank shall promptly inform the Donor of any significant modification to the terms of any Grant Agreement and of any contractual remedies that are exercised by the Bank under any Grant Agreement. To the extent practicable, the Bank shall afford the Donor the opportunity to exchange views before effecting any such modification or exercising any such remedy.

8. Procurement

8.1. For Recipient-executed activities, the Grant Agreement shall provide that the Contributions shall be used by the Recipient to finance expenditures for goods and services, as the case may be, in accordance with the Bank's Guidelines on "Procurement under IBRD Loans and IDA Credits" and the Bank's Guidelines on the "Selection and Employment of Consultants by World Bank Borrowers," as in effect at the date of entry into the respective Grant Agreement.

8.2. For Bank-executed activities, the employment and supervision of any consultants and the procurement of any goods financed by the Contributions shall be the responsibility of the Bank and shall be carried out in accordance with its applicable policies and procedures.

9. Accounting and Financial Reporting

9.1. The Bank shall maintain separate records and ledger accounts in respect of the Contributions deposited in the Trust Fund account and disbursements made therefrom.

9.2. The Bank shall furnish to the Donor current financial information relating to receipts, disbursements and fund balance in the holding currency of the Trust Fund with respect to the Contributions via the World Bank's Trust Funds Donor Center secure website. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance *in the holding currency* of the Trust Fund with respect to the Contributions will be made available to the Donor via the World Bank's Trust Funds Donor Center secure website.

9.3. The Bank shall provide to the Donor, within six (6) months following the end of each Bank fiscal year, an annual single audit report, comprising (1) a management assertion together with an attestation from the Bank's external auditors concerning the

adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (2) a combined financial statement for all cash-based trust funds together with the Bank's external auditor's opinion thereon. The cost of the single audit shall be borne by the Bank.

9.4. If the Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank's external auditors of the Trust Fund, the Donor and the Bank shall first consult as to whether such an external audit is necessary. The Bank and the Donor shall agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Bank shall arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, shall be paid by the Donor.

9.5. The Bank shall provide the Donor with copies of all financial statements and auditors' reports received by the Bank from the Recipient pursuant to the Grant Agreement.

10. Progress Reporting

10.1. The Bank shall provide the Donor with semi-annual reports and relevant project documents on the progress of activities financed by the Contributions. Within six (6) months of the final disbursement date specified in paragraph 11.2, the Bank shall furnish to the Donor a final report on the activities financed by the Trust Fund.

10.2. The Donor may review or evaluate activities financed by the Trust Fund. The Donor and the Bank shall agree on the scope and conduct of such review or evaluation, and the Bank shall provide all relevant information within the limits of its policies and procedures. All associated costs shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund.

11. Disbursement; Cancellation; Refund

11.1. It is expected that the Contributions will be fully disbursed by the Bank by December 30, 2016. The Bank shall only disburse Contributions for the purposes of this Agreement after such date with the written approval of the Donor.

11.2. The Donor or the Bank may, upon three (3) months' prior written notice, cancel all or part of any remaining balance of the Contributions that are not committed pursuant to any agreements entered into between the Bank and any consultants and/or other third parties for the purposes of this Agreement prior to the receipt of such notice, including the Grant Agreement.

11.3. Following the final disbursement date specified in paragraph 11.1, the Bank shall return any remaining balance of the Contributions to the Donor Balance Account based on the Donor's paid Contributions. In the event of a cancellation the Bank shall promptly

return to the Donor Balance Account the uncommitted Contributions in accordance with paragraph 11.3.

12. Communication and Addresses

Except as provided for in paragraph 4.2 above, any notice, request or other communication to be given or made under this Agreement shall be in writing and delivered by mail, facsimile or e-mail to the respective party's address specified below or at such other address as such party notifies in writing to the other party from time to time:

For the Bank:

Uzma Khalil
Financial Sector Specialist
ECSF2
The World Bank
1818 H Street, NW
Washington, DC 20433
U.S.A.

Tel: +1 202 458 5515
Fax: + 1 202 522 3687
E-mail: ukhalil@worldbank.org

For the Donor:

Head, Economic Division
State Secretariat for Economic Affairs SECO
Economic Cooperation and Development WE
Macroeconomic Support WEMU
Holzikofenweg 36, CH - 3003 Berne, Switzerland

Tel: Tel: +41 31 324 07 94
Fax: Fax + 41 31 324 09 62
E-mail: info.wemu.cooperation@seco.admin.ch

13. Amendment

All annexes hereto constitute an integral part of this Agreement. This Agreement may be amended only in writing between the Bank and the Donor.

14. Disclosure

The Bank will disclose this Agreement and related information on this Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into

this Agreement, the Donor consents to disclosure of this Agreement and related information on this Trust Fund.

Please confirm your agreement with the foregoing, on behalf of the Donor, by signing, dating, and returning to us the enclosed copy of this Agreement. Upon receipt by the Bank of the copy of this Agreement countersigned by you, this Agreement will become effective as of the date of the countersignature.

Sincerely,

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION**

/s/ Asad Alam
Regional Director
South Caucasus Country Department
Europe and Central Asia Region

AGREED:

**For the GOVERNMENT OF THE SWISS CONFEDERATION (SWITZERLAND)
Acting through the STATE SECRETARIAT FOR ECONOMIC AFFAIRS (SECO)**

By:/s/ Beatrice Maser

Date: December 13, 2011

Name: Beatrice Maser Mallor

Title: Ambassador

ANNEX 1

**Description of Activities and Expenditures under the
Azerbaijan Financial Sector Modernization Project Trust Fund**

This Annex shall be applicable to and form an integral part of the agreement entered into between the Bank and the Donor that provides contributions (the aggregate of all contributions from the Donor, the “Contributions”) to be administered by the Bank for the Trust Fund.

A. Objective: The objective of this Trust Fund is to support the modernization of the Azeri financial sector through technical assistance and capacity building.

B. Description of Activities: The Trust Fund will support the following activities:

1. Bank-Executed Trust Fund Activities:

- (a) Providing technical assistance for capacity and institutional building of Azerpost’s mid-level management and Supervisory Board;
- (b) Providing technical assistance to support the Recipient’s efforts in developing a comprehensive framework for financial consumer protection and financial literacy (CPFL) through:
 - i. Strengthening the institutional capacity of relevant financial regulatory institutions dealing with financial consumer protection;
 - ii. Improvement of the legal and regulatory framework for protection of financial consumers;
 - iii. Improvement of consumer disclosure mechanisms;
 - iv. External monitoring of the CPFL Action Plan
 - v. Development of the strategy and content of CPFL awareness initiatives.
- (c) Bank supervision of recipient-executed activities.

2. Recipient-Executed Trust Fund Activities:

Part 1: Capital Market Modernization

- (a) Updating and Strengthening the Legal and Regulatory Framework
 - i. Conducting a comprehensive review of the existing legal and regulatory framework for capital market and preparing a new capital market law through the provision of consultants’ services.

- ii. Preparing the executive regulations for the new capital market law and the operating rules of the stock exchange, central depository and the clearing house through the provision of consultants' services.
- iii. Adopting new licensing regimes for capital market participants in line with the new capital market law through the provision of consultants' services.
- iv. Supporting the State Committee for Securities (SCS) and the tax authorities in the development of a policy for a favorable tax environment to attract capital market participants and transactions through the provision of consultants' services.
- v. Supporting the SCS and the relevant competent authorities in the development of a policy and regulatory framework to allow pooled investments by insurance companies through the provision of consultants' services.
- vi. Introducing appropriate capital market adequacy and risk assessment methods for capital market participants through the provision of consultants' services.

(b) Stimulating Supply

- i. Conducting a strategic assessment on the modality of attracting local and foreign issuers to list on the Baku stock exchange through the provision of consultants' services.
- ii. Supporting the SCS and the Ministry of Finance to develop the government securities market through the provision of consultants' services.
- iii. Developing the policy and regulatory framework to improve the corporate debt market through the provision of consultants' services.
- iv. Supporting the SCS in developing a corporate education and outreach program on the business advantages of raising funds in the Azeri capital market through the provision of consultants' services.
- v. Preparing a feasibility study for the introduction of exchange traded funds and new financial instruments in the capital market through the provision of consultants' services.
- vi. Conducting: (a) an assessment of the impediments in the capital market and demands for introducing public- private partnerships to finance large infrastructure projects; and (b) an analysis of how the Azeri capital market may support privatization by providing organized mechanisms for the bids and sales of shares, through the provision of consultants' services.

Part 2: Azerpost – Training of employees and rebranding of Azerpost

- (a) Training of Azerpost employees through:
 - i. Designing of training curriculum for AzerPost employees
 - ii. Train the trainer approach for AzerPost employees in rural post branches;
 - iii. Delivery of training for non-HQ employees of Azerpost branches and offices.

- (b) Conducting a rebranding campaign of Azerpost:
 - i. Technical assistance on conducting a rebranding of AzerPost through development of marketing strategy, including the assessment of the demand for the development of new financial products.

- (c) Audit and Corrective Action Plan:
 - i. Carrying out the 2011 audit of AzerPost; and preparing the related management letters; and
 - ii. Preparation of 2010 and 2011 corrective action plan based on the findings of the 2010 and 2011 audit report and follow-up of its implementation.

C. CATEGORIES OF EXPENDITURE

For Bank-Executed activities the Contributions may be used to finance consultant fees, contractual services, travel expenses, extended term consultants, associated overheads, staff costs, and media and workshop costs.

For Recipient-Executed activities, the Contributions may be used to finance consultants' services including audit of AzerPost and training, training and workshops, and incremental operating costs.