November 22, 2013

Mr. Samir Sharifov  
Minister of Finance  
Ministry of Finance  
Republic of Azerbaijan  

Re: Republic of Azerbaijan: Corporate and Public Sector Accountability Project  
(Credit No. 4405-AZ)  
Amendment to the Financing Agreement

Dear Mr. Sharifov:

We refer to the Financing Agreement (the Financing Agreement) for the above-referenced Project, dated September 26, 2008 between the Republic of Azerbaijan (the Recipient) and the International Development Association (the Association). We also refer to your letter dated September 21, 2013, requesting the Association as well as further discussions with the Association to introduce amendments to the Financing Agreement and Supplemental Letter No. 2 reflecting the revised performance monitoring indicators.

We are pleased to inform you that, after due consideration, the Association has agreed to amend the Financing Agreement and Supplemental Letter No. 2 as follows:

A. Financing Agreement

1. The Project description under Schedule 1 to the Financing Agreement is revised to read as follows:

   "SCHEDULE 1

   Project Description

   The objective of the Project is to strengthen accountability and transparency in financial reporting for public and corporate sectors in line with international best practices, and to support institutional strengthening to sustain reforms.

   The Project consists of the following parts:

   Component 1: Corporate Sector Accountability

   Establishment of the association of professional accountants of Azerbaijan through: (a) the development of the appropriate legal and institutional frameworks; and (b) capacity of the said association for translation, adoption and enforcement of IFRS and NASCOs.

   Component 2: Public Sector Accountability

   1. Support to the public sector in implementing National Accounting Standards for Budget Organizations (NASBOs) which are based on International Public Sector Accounting Standards (IPSAS)."
2. Strengthening the capacity of the Chamber of Accounts of the Recipient.

3. Creation of an electronic reporting system at selected ministries and public entities and the establishment of a maintenance and support center for such system through the provision of goods, consultants' services and Training.

Component 3: Strengthening of Accounting, Auditing and Financial Management Capacity

Establishment of an Azerbaijan Center for Professional Accounting and Audit Training Education and Research (ACPATER) under the Ministry of Finance of the Recipient, and which shall have broad responsibility for strengthening Azerbaijan accounting, auditing and financial management capacity.

Component 4: Project Management

Support of the PMU for effective implementation of the Project, through provision of goods, consultants' services and Training and financing of Incremental Operating Costs.”

2. Section III.B.2 under Schedule 2 to the Financing Agreement is revised to read as follows:

“2. Other Methods of Procurement of Goods. 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>
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<tr>
<th>Procurement Method</th>
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<td>(a) National Competitive Bidding, subject to the following additional provisions:</td>
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<td>(i) there shall be no eligibility restrictions based on nationality of bidder;</td>
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<td>(ii) pre-qualification shall not be used for simple works procurement and shall be conducted only for large works contracts;</td>
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<td>(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;</td>
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<td>(iv) no national preferences may be applied on the basis of the origin of products or labor;</td>
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<td>(v) joint venture partners shall be jointly and severally liable for their obligations;</td>
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<td>(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;</td>
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<td>(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;</td>
</tr>
</tbody>
</table>
Procurement Method

(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;

(x) prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation; and

(xi) standard bidding documents approved by the Association shall be used.

(b) Shopping

(c) Direct Contracting”

3. Section IV under Schedule 2 to the Financing Agreement is revised to read as follows:

“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 as of the date of countersigning this Amendment, 100% of Eligible Expenditures, consisting of goods, consultants’ services (including audit), Training 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.

2. The Closing Date is June 30, 2015.”

5. All the terms and conditions of the Financing Agreement that have not been amended hereby shall remain unchanged and in full force and effect.

B. Supplemental Letter No. 2: Performance Monitoring Indicators:
With reference to the provisions of Section II.A of Schedule 2 to the Financing Agreement, the performance monitoring indicators shall be amended as set out in the modified Supplemental Letter No. 2, attached to this amendment letter (Annex 1).

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Amendment Letter and the Supplemental Letter No. 2. Upon receipt by the Association of the copy of this Amendment Letter and the Supplemental Letter No. 2 respectively countersigned and signed by you this Amendment Letter and the Supplemental Letter No. 2 will become effective as of the date of your countersignature and signature thereof.

Sincerely,

[Larisa Leshchenko]

Larisa Leshchenko
Country Manager for Azerbaijan
Europe and Central Asia Region

CONFIRMED:

REPUBLIC OF AZERBAIJAN

By: [Signature]
Authorized Representative

Name: Samir Shamitov

Title: ____________________________

Date: November 22