September 17, 2012

H. E. Samir Sharifov  
Minister of Finance  
Ministry of Finance  
83, S. Vurgun Street  
Baku 1022  
Republic of Azerbaijan

Re: Republic of Azerbaijan: State Secretariat for Economic Affairs (SECO)  
(Grant No. TF011975)  
Financial Sector Modernization Project

Excellency:

In response to the request for financial assistance made on behalf of Republic of Azerbaijan ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by Switzerland represented by the State Secretariat for Economic Affairs ("Donor"), proposes to extend to the Recipient a grant in an amount not to exceed two million one hundred fifty thousand United States Dollars (US$2,150,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer
of this Agreement shall be deemed withdrawn if the World Bank has not received the
countersigned copy of this Agreement within thirty (30) days after the date of signature of this
Agreement by the World Bank, unless the World Bank shall have established a later date for
such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Henry G. R. Kerali
Regional Director
South Caucasus Country Department
Europe and Central Asia Region

AGREED:
REPUBLIC OF AZERBAIJAN

By:

Authorized Representative
Name: 
Title: 
Date: October 11, 2012

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated

(2) Disbursement Letter of the same date as this Agreement, together with World Bank
Disbursement Guidelines for Projects, dated May 1, 2006.
Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following additional terms have the following meanings:

(a) "Incremental Operating Costs" means the incremental expenses incurred by the Recipient on account of reasonable and necessary activities directly related to the Project implementation, management and monitoring, including office supplies, translation costs and support staff salaries, but excluding the salaries of the civil servants, and any other expenditures that may be agreed upon by the World Bank.

(b) "MOCIT" means the Recipient's Ministry of Communications and Information Technology and any successor thereto.

(c) "PIU" means the Project implementation unit established and maintained within the Central Bank pursuant to Section 2.03(b) of this Annex.

(d) "Project Operational Manual" means the operational manual for the Project adopted by the Recipient satisfactory to the World Bank, outlining, inter alia, the institutional, disbursement, procurement, monitoring indicators and management arrangements for the implementation of the Project, as the same may be amended from time to time with approval of the World Bank, as such term includes any schedules to the Project Operational Manual.

(e) "SCS" means the State Committee for Securities of the Recipient, established by virtue of Presidential Decree No. 58 dated December 30, 1998, and restructured pursuant to Presidential Decree No. 52 dated November 19, 2008, and Presidential Decree No. 70 dated March 5, 2009, approving the statute and organizational structure thereof.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to support the modernization of the Azeri financial sector through technical assistance and capacity building. The Project consists of the following parts:
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 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:

(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 by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank.

(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.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause: (a) Part 1 of the Project to be carried out by the State Committee for Securities; and (b) Part 2 of the Project to be carried out by Azerpost in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements. (a) Without limitation upon the provisions of Section 2.02 of this Annex, the Recipient shall cause: (i) SCS to carry out Part 1 of the Project; and (ii) AzerPost to carry out Part 2 of the Project, in accordance with the Project Operations Manual. The Recipient shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior written approval of the World Bank.

(b) The Recipient shall through MOCIT enter into appropriate arrangements satisfactory to the World Bank, with the Central Bank to establish within the Central Bank by no later than April 15, 2012 and thereafter maintain the PIU until the completion of the Project with staff, resources and terms of reference satisfactory to the World Bank. The PIU shall assist Azerpost carrying out Part 2 of the Project including, responsibility for the procurement process, financial management and the preparation of withdrawal applications under Part 2 of the Project.
2.04.  **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05.  **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank as set forth in Project Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06.  **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall:

(i) cause SCS to have its respective Project Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the period of one fiscal year of SCS. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period; and

(ii) cause Azerpost to have its respective Project Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07.  **Procurement**

(a) **General.** All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
(i) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(d) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table, excluding any applicable value added taxes (VAT). The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant 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 Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (Net of VAT)</th>
</tr>
</thead>
</table>

7
(1) Consultants' services, including audit under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Part 1 of the Project</td>
<td>1,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Part 2(a), 2(b) and 2(c)(ii) of the Project</td>
<td>505,000</td>
<td>100%</td>
</tr>
<tr>
<td>(c) Part 2(c)(i) of the Project</td>
<td>25,000</td>
<td>50%</td>
</tr>
<tr>
<td>(2) Incremental Operating Costs under Part 2 of the Project</td>
<td>20,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>2,150,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

(b) under Categories 1(b), 1(c) and (2) until the PIU has been duly established with staffing, resources and terms of reference satisfactory to the World Bank as set forth in Section 2.03 of this Annex.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30 2016.

Article IV

Recipient's Representative; Addresses

4.01. Recipient's Representative. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.
4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Telex:  Facsimile:  
142116 BNKSL  99412 4044720  
99412 4044721

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:  Telex:  Facsimile:  
INTBAFRAD  248423 (MCI) or  1-202-477-6391  
INDEVAS  64145 (MCI)  
Washington, D.C.