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

Re: Republic of Azerbaijan: Japanese Grant for Co-financing Corporate and Public Sector Accountability Project (Grant No. TF057849)  
Amendment to the Grant Agreement

Dear Mr. Minister:

We refer to the Grant Agreement between the Republic of Azerbaijan (the “Recipient”) and the International Development Association (“World Bank”), as administrator of grant funds provided by Japan dated September 26, 2008 (the “Grant Agreement”). We also refer to your letter dated August 8, 2011, requesting the World Bank to make certain amendments to the Grant Agreement as well as further discussions with the World Bank.

We are pleased to inform you that, after due consideration, the World Bank has agreed to amend the Grant Agreement as follows:

1. Section 2.01 of the Annex to the Grant Agreement is amended to read as follows:

   “2.01. Project Objectives and 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

1. Support to the corporate sector (including state-owned enterprises) in implementing appropriate International Financial Reporting Standards (IFRS) for public interest entities and the National Accounting Standards for Commercial Organizations (NASCOs).

2. Establishment of appropriate legal and institutional frameworks and capacity for translation, adoption and enforcement of IFRS and NASCOs.

3. Establishment and development of an agency within the Ministry of Finance of the Recipient to oversee the audit regulation function.

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, and development of a strategy to strengthen public sector internal financial control of the Recipient.

3. Creation of an electronic reporting system at selected ministries 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. The Section 3.01 of the Annex to the Grant Agreement is amended to read as follows:

“3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) Article III of 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 ___% of Eligible Expenditures consisting of goods, consultants’ services (including audit), training and Incremental Operating Costs.

For the purposes of this Section:

(a) the term “Incremental Operating Costs” means incremental recurrent expenditures incurred by the PMU in connection with Project implementation, including office supplies, office and IT equipment, audio-visual equipment and communications equipment, vehicle rental and operating charges, maintenance of office equipment, telephone and other communication charges, rental of office space, insurance charges, banking charges, utility charges, and domestic travel expenses, but excluding salaries of officials of the Recipient’s civil service, and other reasonable and necessary activities directly related to Project implementation, management and monitoring as may be agreed upon by the World Bank; and

(b) the term “Training” means expenses incurred by the Recipient and the PMU 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 related supplies.”
3. Section 3.03 of the Annex to the Grant Agreement is amended to read as follows:

“3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2013.”

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

Please confirm your agreement to the foregoing by countersigning both copies of this amendment letter and returning one of the countersigned copies to us. Upon receipt by the World Bank of the copy of this amendment letter countersigned by you, this amendment letter will become effective as of the date of your countersignature.

Sincerely,

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

CONFIRMED:

REPUBLIC OF AZERBAIJAN

By: /s/ Samir Sharifov

Title: Minister of Finance

Date: November 16, 2011