Mr. Ziya Arzuman oglu Mammadov  
Minister of Transport  
Ministry of Transport  
Republic of Azerbaijan

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

Re: Republic of Azerbaijan: IDF Grant for Quality Management in the Road Sector Project  
IDF Grant No. TF096927

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Azerbaijan (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”) proposes to extend to the Recipient a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed four hundred and fifty thousand United States Dollars (US$450,000) (“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”).

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effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this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/s/

Asad Alam
Country Director
South Caucasus Country Unit
Europe and Central Asia Region

AGREED:

REPUBLIC OF AZERBAIJAN

By/s/ Mr. Ziya Arzuman oglu Mammadov
Authorized Representative

Title: Minister of Transport

Date: December 8, 2010

Enclosures:


Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (“Standard Conditions”) constitute an integral part of this Agreement.

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.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to introduce sound quality management system in the road sector in Azerbaijan in accordance with accepted international best practices. The Project consists of the following parts:

**Part A: Introduction of quality management concepts to enhance public service delivery**

1. Review of the current practices of ARS in quality management by: (a) conducting a workshop on quality management systems applicable in the road sector; (b) undertaking a diagnostic review of the ongoing operational processes of ARS to assess the quality management system; and (c) developing a guidance note for improving the performance of ARS in quality management, through the provision of consultants’ services, training and workshop.

2. Application of quality management in practice through: (a) the preparation of a technical audit report on selected civil works contracts to evaluate the performance in regard to civil works and the supervision of civil works; (b) improving the knowledge and capacity ARS staff for carrying out technical inspections in the road sector through on-the-job training on the said technical audit report; and (c) reviewing the practices during implementation of the road projects with the view to identify opportunities for better performance and improved service delivery to the public, all through the provision of consultants’ services and training.

3. Gathering stakeholders feedback and consensus building to design quality management systems by: (a) conducting a workshop with the relevant stakeholders; and (b) developing a detailed implementation plan to improve the quality management systems in the road sector and to introduce modern performance improvement practices into policies and procedures to deliver better services in the road sector; all through the provision of consultants’ services and training.

**Part B: Institutionalization of quality management framework and preparation of quality management manual**
1. Development of a quality management framework through the provision of consultants’ services.

2. Development of the quality management manual, including: (a) a design review manual; (b) a construction inspection manual; (c) a manual for conducting acceptance procedures and standards, through the provision of consultants’ services.

3. Implementation of capacity building measures within the ARS by: (a) updating the organizational structure within the ARS; (b) developing job descriptions for staff responsible for the quality management activities in the road sector; and (c) carrying out a training program and a small study tour for decision makers, through the provision of consultants’ services and training.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by ARS (“Project Implementing Entity”) 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 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. Institutional and Other Arrangements. The Recipient shall: (a) promptly upon the countersignature of this Agreement, provide in-kind contribution to the Project in an amount equivalent to forty five thousand United States dollars (US$45,000), including logistical and administrative support and staff time for working with the consultants and participating in the training and workshops, required for the implementation of the Project; (b) cause ARS to: carry out the Project with due diligence and efficiency; and (c) until the completion of the Project, cause the ARS to maintain the PIU and ensure that the PIU is adequately staffed by personnel with qualifications and under terms of reference and functions at all times in accordance with procedures necessary and appropriate for the carrying out of the Project, and satisfactory to the World Bank. The functions of the PIU shall include, inter alia, responsibility for: (a) the procurement process, financial management and the preparation of withdrawal applications under the Project; and (b) monitoring and evaluation of the progress in implementing the Project, in accordance with indicators agreed upon with the World Bank.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than one month after the date of such request.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) A detailed implementation plan to introduce modern performance improvement practices into policies and procedures has been developed and adopted in selected organizations.
(ii) The organizational function of ARS has been reviewed and updated; quality management mechanisms are institutionalized, mechanisms for technical audits of civil works are integrated in the procedures used by ARS. Necessary tools, such as guidelines, draft regulations, procedures, and manuals have been prepared and used for the technical audits. The technical audit manual has been drafted and adopted.

(iii) Key staff members of ARS have acquired specialized training and knowledge required to: (A) understand the necessity of independent oversight of the activities through established procedure; and (B) conduct effectively supervision of the road projects according to the developed methodology and policy. Overall capacity of ARS has increased the number of well trained staff members who have been through the intensive on-the-job training.

(c) The Recipient shall, upon the World Bank’s request, 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 five months after the Closing Date.

2.05. **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 semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its 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 Recipient shall ensure that the audited Financial Statements for such period shall be: (i) furnished to the World Bank not later than six months after the end of such period; and (ii) made publicly available in a timely fashion and in a manner acceptable to the World Bank.

2.06. **Procurement.** (a) **General.** All goods and 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) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”), in the case of consultants’ services.
(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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods. Goods shall be procured under contracts awarded on the basis of Shopping.

(d) 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 may be used for the procurement of consultants’ services for those assignments which the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Least Cost Selection; (C) Selection based on Consultants’ Qualifications; (D) Single-source Selection; (E) Established Private or Commercial Practices which have been found acceptable to the World Bank; (F) Selection of Service Delivery Contractors which have been found acceptable to the World Bank; (G) Selection of Individual Consultants; and (H) Sole Source Procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (i) each contract for goods; and (ii) each contract for consultants’ services.

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) 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 Eligible Expenditures as set forth in the following table. 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:
For the purposes of this Section, the term “Training and Workshops” means costs incurred for training and workshops activities, including venue and equipment rental, training materials and supplies, meals, translation services and economy-class airfare and hotels for study tours within the region.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the date of countersignature of this Agreement by the Recipient.

### 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 its 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:  
142116 BNKSL  
Facsimile:  
99412 4044720  
99412 4044721

<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>
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<tr>
<td>(1) Goods</td>
<td>10,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services</td>
<td>410,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training and Workshops</td>
<td>30,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>450,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
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  

<table>
<thead>
<tr>
<th>Cable:</th>
<th>Telex:</th>
<th>Facsimile:</th>
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<tbody>
<tr>
<td>INTBAFRAD</td>
<td>248423 (MCI) or</td>
<td>1-202-477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
<td></td>
</tr>
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APPENDIX

Section I: Definitions

1. “ARS” means the “Azerroadservice” Open Joint-stock Company, or Azerbaijan Road Service, which is also the Project Implementing Entity, established as an Open Joint-stock Company under the subordination of the Ministry of Transport by virtue of the Presidential Decree on the Measures to Improve Management of Transport and Road Complex (Decree No. 1992), dated February 22, 2007, and Decision No. 180 of the Cabinet of Ministers dated November 15, 2007, whose responsibilities were transferred from the Road Transport Service Department LLC within the Recipient’s Ministry of Transport, which was established by the Order of the Ministry of Transport of the Recipient (Order No. 03) dated June 23, 2003.

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

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

4. “PIU” means the Project Implementation Unit as established by the Recipient’s internal order (Order No. 59k) dated August 14, 2003 within the ARS.

Section II: Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“…(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn 13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time; (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in
connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”