Financing Agreement

(Judicial Modernization Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 3, 2006
FINANCING AGREEMENT

AGREEMENT dated October 3, 2006, between REPUBLIC OF AZERBAIJAN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II - FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fourteen million eight hundred thousand Special Drawing Rights (SDR 14,800,000) ("Credit") to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are February 15 and August 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollars.
ARTICLE III - PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the JMT in the MOJ, in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of the Operational Manual and Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following:

(a) The Ministerial Decree No. 12 S of the Ministry of Justice, dated February 4, 2006, has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the JMT to perform any of its obligations in carrying out the Project.

(b) The Presidential Decree No. 352, dated January 19, 2006, has been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of the Co-financing Grant has been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Co-financing Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:

(A) such suspension, cancellation or termination is not caused by the failure of the Recipient to perform any of its obligations under the Co-financing Grant Agreement; and

(B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under the Co-financing Grant Agreement.

4.02. The Additional Event of Acceleration consists of the following:

(a) Any event specified in paragraph (a) or (c) of Section 4.01 of this Agreement occurs.
(b) The event specified in paragraph (b) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled.

(b) The Recipient has opened the Project Account in a bank on terms and conditions acceptable to the Association with an initial deposit in local currency equivalent to $50,000.

(c) The Operational Manual, acceptable to the Association, has been adopted by the MOJ.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s representative is the Minister of Finance.

6.02. The Recipient’s address is:

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

Telex:

142116 BNKSL
6.03. The Association’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

AGREED at Baku, Republic of Azerbaijan, as of the day and year first above written.

REPUBLIC OF AZERBAIJAN

By /s/ Fikrat Farrukh oglu Mammadov

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory T. Jedrzejczak

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to develop capacity of the Recipient’s judicial system to achieve incremental improvements in efficiency, citizen information and its ability to handle future demand.

The Project consists of the following parts:

Component 1: Strengthening the Management Capacity of Judicial Institutions

(a) Development and installation of an integrated system for management decision making and planned processes aimed at enhancing operational effectiveness, through provision of goods, works, consultants’ services and training.

(b) Design and implementation of an information network between the Judicial-Legal Council (JLC) and other public institutions for promoting communication and coordination mechanisms.

(c) Capacity building for the Ministry of Justice (MOJ) and the JLC on court system modernization, including evaluation of judges.

(d) Capacity building for the JMT to implement the Project, including planning and supporting of stakeholder participation.

Component 2: Court Facility and Technology

(a) Upgrading of courthouses in accordance with the international standards, through:

(i) development of a strategic infrastructure plan for medium and long-terms;

(ii) carrying out of court renovation, rehabilitation and construction of selected courts including provision of office equipment; and

(iii) capacity building for supervision of rehabilitation and construction activities.

(b) Upgrading of technologies for the courts, through:

(i) design and preparation of an information and communications technology master plan for courts, including the Supreme Court and the Constitutional Court;
(ii) design, testing and implementation of automated case management systems for the demonstration purposes; and

(iii) provision of information, communication and technology and other technical equipment to the courts that are constructed and rehabilitated under Component 2 (a) above.

Component 3: Human Capital – Capacity Development for Judges and Staff

(a) Capacity building of training, through:

(i) design and development of organization and structure for the judicial academy;

(ii) development of a faculty of permanent and part-time professors and formalization of twinning arrangement with international training institutions;

(iii) development of training programs;

(iv) design and provision of facilities for the judicial academy; and

(v) provision of information and communication technologies and other technical and office equipment for the judicial academy.

(b) Development of professional skills and capabilities of new and senior judges, court chairmen, deputy court chairmen, staff and legal professionals, through the provision of training.

(c) Preparation and facilitation of annual judicial conferences in order to evaluate impacts, exchange views and share experiences for further learning.

Component 4: Improvement of Citizen Information

(a) Identification of information needs of target groups; and development of pilot citizen information programs, including information campaigns to inform citizens about the modernization program of the judicial system and evaluation of pilot citizen information programs, through provision of consultants’ services, goods and training.

(b) Upgrading of the registries’ and notaries’ functions, through:

(i) review and computerization of information collections, cataloging and archival services of registries, including provision of information and communication technologies and office equipment; and
(ii) review and update of the organization and functioning of notaries, computerization of the certification and information collection services, including provision of information and communication technologies and office equipment.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. Without limitation upon the provisions of Section 3.01 and except as the Recipient and the Association shall otherwise agree, the Recipient shall maintain a balance in the Project Account, until the completion of the Project, with the amount adequate for the subsequent three (3) months of Project implementation.

2. The Recipient shall ensure that all measures necessary for the carrying out of the EMP shall be taken in a timely manner.

3. The Recipient shall:

   (a) ensure that adequate budget shall be allocated for contributing to the cost of increased number of judges operation and maintenance of renovated court buildings and information technology equipment; and

   (b) submit to the Association by November 1 of each year, its budgetary allocations for the following year to the Ministry of Justice of the Recipient to indicate the cost elaborated in (a) above.

4. For supervision of construction of courts under Component 2 (a) (ii) of the Project, the Recipient shall maintain an architect, whose qualification and terms of reference are acceptable to the Association, in the JMT until the completion of the Project.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than October 31, 2011.
3. By March 31 of each year, the Recipient shall publish the progress report of the Project in a manner satisfactory to the Association.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. 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>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the following additional provisions:</td>
</tr>
<tr>
<td>(i) there shall be no eligibility restrictions based on nationality of bidder and/or origin of goods;</td>
</tr>
<tr>
<td>(ii) pre-qualification shall not be used for simple goods and works procurement and shall be conducted only for large works projects;</td>
</tr>
<tr>
<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>
</tr>
<tr>
<td>(iv) no national preferences may be applied on the basis of the origin of products or labor;</td>
</tr>
<tr>
<td>(v) joint venture partners shall be jointly and severally liable for their obligations;</td>
</tr>
<tr>
<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>
</tr>
<tr>
<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>
<tr>
<td>(viii) rebidding shall not be carried out without prior approval of the Association;</td>
</tr>
<tr>
<td>(ix) works contracts of more than eighteen (18) months’ duration shall include appropriate price adjustment provisions; and</td>
</tr>
<tr>
<td>(x) prior approval of the Association shall be required for any modification in the contract scope and conditions during implementation.</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>
C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection based on Consultants’ Qualifications</td>
<td></td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
<td></td>
</tr>
<tr>
<td>(c) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
<td></td>
</tr>
<tr>
<td>(c) Sole Source Procedures for the Selection of Individual Consultants</td>
<td></td>
</tr>
</tbody>
</table>

D. **Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract procured on the basis of International Competitive Bidding and Direct Contracting; (b) each contract for works and the first two contracts for good procured on the basis of National Competitive Bidding; (c) the first two (2) contracts for goods or works procured on the basis of Shopping; (d) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more; and (e) each contract for individual consultants estimated to cost the equivalent of $50,000 or more, or selected on a sole-source basis. All the terms of reference shall be subject to Prior Review. All other contracts shall be subject to Post Review by the Association.

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 this Section and such additional instructions as the Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit 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 Credit Allocated (Expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>6,900,000</td>
<td>90%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>4,400,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ Services, including Audits</td>
<td>1,420,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>1,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Incremental Operating Costs</td>
<td>280,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>14,800,000</td>
<td></td>
</tr>
</tbody>
</table>

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, except that withdrawals up to an aggregate amount not to exceed $400,000 equivalent may be made for payments made prior to this date but on or after June 1, 2006, for Eligible Expenditures under Categories (2) through (5).

2. The Closing Date is December 31, 2011.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing August 15, 2016 to and including February 15, 2026</td>
<td>1.25%</td>
</tr>
<tr>
<td>commencing August 15, 2026 to and including February 15, 2041</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


3. “Co-financing Agreement” means the agreement to be entered into between the Recipient and the Co-financier providing for the Co-financing.

4. “Co-financing” means an amount of $3,000,000 to be provided by the Co-financier to assist in financing the Project.


6. “EMP” means the environmental management plan, satisfactory to the Association, adopted by the Recipient and submitted to the Association, on April 19, 2006, incorporated into the Operational Manual, setting forth the framework for measures to mitigate any adverse impacts to the environment under Component 2 of the Project.


8. “Incremental Operating Costs” means incremental expenses incurred by the JMT on account of Project implementation, such as communications, office supplies and materials, vehicle maintenance, fuel, and such other expenditures as may be agreed upon by the Association.

9. “JMT” means the Judicial Modernization Team established within the Ministry of Justice of the Recipient, through the Ministerial Decree No. 12-S, on February 4, 2006, acting as the coordinator and responsible entity for the implementation of the Project.

10. “Judicial Legal Council” or “JLC” means the Judicial Legal Council established, through the Judicial Legal Council Act, dated December 28, 2004, responsible for overseeing the overall organization and operation of the court system and evaluation and selection of judges.


12. “Operational Manual” means the manual referred to in Section 5.01 (c) of this Agreement, setting forth the implementation procedures for activities for the
Project, as the same may be amended from time to time with the agreement of the Association.


14. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 12, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

15. “Project Account” means an account referred to in Section 5.01 (b) of this Agreement, maintained by the Recipient and to be used for financing the Recipient’s contribution to the Project’s expenditure.

16. “Training” means expenses incurred by the Recipient in connection with carrying out training activities under the Project, including travel costs and per diem for local trainees and trainers, study tours, workshops, conferences, rental of facilities and equipment and training materials and related supplies.