Financing Agreement

(Corporate and Public Sector Accountability Project)

between

REPUBLIC OF AZERBAIJAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 26, 2008
FINANCING AGREEMENT

AGREEMENT dated September 26, 2008, entered into 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 this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

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 seven million Special Drawing Rights (SDR 7,000,000) (“Financing”) 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 1 and August 1 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the 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 PMU 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 Project Operational Manual and the provisions of 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. I-75 of the Ministry of Finance, dated July 30, 2007, on the establishment of the PMU, has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PMU to perform any of its obligations in carrying out the Project.

   (b) Accounting Law No. 716, dated June 29, 2004, has been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.

   (c) The Presidential Decree on Exercising Azerbaijan Republic Law on Accounting, has been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect the implementation of the Project.

   (d)  
      (i) Subject to subparagraph d (ii) of this paragraph, the right of the Recipient to withdraw the proceeds of any grant made to the Recipient by the Co-financier for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore.

      (ii) Subparagraph (d (i) of this Section shall not apply if the Recipient establishes to the satisfaction of the Association that:
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(A) such suspension, cancellation, termination or premature is not caused by the failure of the Recipient to perform any of its obligations under such 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 this Agreement.

4.02. The Additional Events of Acceleration consist of the following:

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

(b) The event specified in paragraph (b) of Section 4.01 of this Agreement occurs.

ARTICLE V - EFFECTIVENESS; TERMINATION

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

(a) The Recipient has adopted the Project Operational Manual, acceptable to the Association.

(b) The Recipient has established the PSC under terms of reference satisfactory to the Association.

(c) 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 this Agreement) have been fulfilled.

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

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

REPUBLIC OF AZERBAIJAN

By /s/ Samir Sharifov  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gregory Jedrzejczak  
Authorized Representative
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

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. Improvement of statutory framework and building capacity to regulate and oversee the audit 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.

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.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall maintain the PMU with adequate resources, staffing and terms of reference necessary satisfactory to the Association until the completion of the Project.

2. The Recipient shall maintain the PSC with a composition and terms of reference satisfactory to the Association until the completion of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 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.

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. The Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited 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 fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.
Section III. Procurement

A. General

1. Goods. All goods 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 Section.

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 Section.

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

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

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>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shopping</td>
</tr>
<tr>
<td>(b) 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>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(d) Single-source Selection</td>
</tr>
<tr>
<td>(e) Procedures set forth in Paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of the Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s 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 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 60% 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 December 31, 2012.
### 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 1 and August 1:</td>
<td></td>
</tr>
<tr>
<td>commencing August 1, 2018 to and including February 1, 2028</td>
<td>1.25%</td>
</tr>
<tr>
<td>commencing August 1, 2028 to and including February 1, 2043</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. “Co-financer” means the Government of Japan, referred to in paragraph 10 of the Appendix to the General Conditions.

2. “Co-financing” means an amount of three million Dollars ($3,000,000), to be provided by the Co-financer to assist in financing the Project.

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


6. “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 Association.

7. “PMU” means the Project Management Unit, established through the Ministerial Decree No. I-75, dated July 30, 2007, within the Ministry of Finance of the Recipient, responsible for the day-to-day management and monitoring of the Project.

8. “PSC” means the Project Steering Committee, comprised of high level representatives from key project beneficiaries, responsible for making decisions on key legal and regulatory issues affecting Project implementation, and to approve annual work plans and budgets for the Project.


11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 15, 2008 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.

12. “Project Operational Manual” means the implementation manual referred to in Section 5.01 (a) of this Agreement, setting forth the operational and administrative procedures for the implementation of the Project and including the Procurement Plan.

13. “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.