
LOAN NUMBER 7671 GE

Loan Agreement

(Additional Financing for the Secondary and Local Roads Project)

between

GEORGIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *March 25*, 2009

LOAN AGREEMENT

Agreement dated *March 25*, 2009, between GEORGIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank 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 - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of seventy million Dollars (\$70,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the

Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
 - (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
 - (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through RDMRDI in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Program will be carried out.

ARTICLE V - TERMINATION

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

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Minister of Finance.
6.02. The Borrower's Address is:

Ministry of Finance
16 Gorgasali Street
0105 Tbilisi
Georgia

Facsimile:

995-32-261461

- 6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

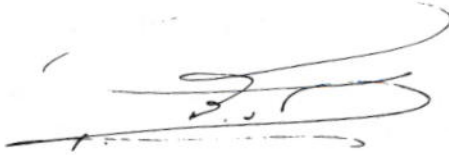
248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

By



Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By



Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) upgrade and rehabilitate the secondary and local roads networks; and (b) increase RDMRDI's and local governments' capacity to manage the road network in a cost effective and sustainable manner.

The Project consists of the Original Project and the following additional parts:

Part A: Rehabilitation of Secondary and Local Roads

Rehabilitating about 450 kilometers of secondary and local roads, carrying out drainage improvements and providing signage and access to adjacent properties.

Part B: Strengthening the Capacity of Road Sector Institutions

1. Strengthening the capacity of RDMRDI and its six regional offices in management and maintenance of the secondary road network through the provision of: (i) consultants' services for data collection; (ii) consultants' services to prepare a performance-based maintenance contract; (iii) computer equipment, laboratory equipment, vehicles and office furniture; and (iv) training.
2. Strengthening the capacity of local government units in management and maintenance of local road network through: (i) the provision of consultants' services for assessing needs and resources of the local governments for roads' maintenance and for designing a local road management and maintenance resource manual; and (ii) conducting workshops for local governments on local road management and maintenance.
3. **Provision of consultants' services for preparing the Project audits**

Part C: Designing and Supervising Road Rehabilitation

Designing about 150 kilometers of road rehabilitation and supervising approximately 450 kilometers of road rehabilitation works, through the provision of consultants' services.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall carry out the Project through RDMRDI with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility, environmental practices and shall provide RDMRDI with the resources and staff necessary for implementing the Project.
2. The Borrower shall ensure that adequate budgetary resources are made available for the Project in the Borrower's annual budget.
3. The Borrower shall require TRRC to carry out the financial management for the Project and assist RDMRDI in the procurement under the Project in accordance with the Implementation Agreement.
4. The Borrower shall permit the use of standards recommended by the European Committee for Standardization on construction, planning and design of roads and highways (in addition to the national standards) in the design, construction and maintenance of road works under the Project.
5. The Borrower shall, through RDMRDI: (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, the road conditions and achievement of other road sector objectives in accordance with Monitoring and Evaluation Indicators and the EF for the carrying out of the Project and the achievement of the objectives thereof; (b) strengthen the capacity of the regional offices of RDMRDI; (c) promote the development of the five year road program and monitor its implementation and impact; (d) ensure that for any contract for road works under this Project: (i) no land is taken or persons displaced as a result of carrying out the road works; (ii) procedures satisfactory to the Bank for ensuring protection of cultural property and/or chance finds are incorporated into the contracts; and (iii) an EMP satisfactory to the Bank is prepared in accordance with the provisions of the EF; and (e) publish an annual report within ninety (90) days of each calendar year outlining in sufficient detail RDMRDI's previous year's accomplishments and its forthcoming five year road program.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the EF and the respective EMP, and that remedial measures are taken during the implementation and operation of the Project to offset or reduce adverse environmental impacts to levels set forth in the EF and the respective EMP. The Borrower shall not assign, amend, abrogate or waive the EF or the respective EMP without the prior approval of the Bank.

2. The Borrower shall ensure that: (a) all civil works shall be conducted within the existing right of way; and (b) no activity shall be undertaken under the Project involving the involuntary acquisition of land or involuntary resettlement of occupants or owners of such land.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall, through RDMRDI, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

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

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank 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 Loan 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 Loan 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 Bank 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.

<u>Procurement Method</u>
(a) National Competitive Bidding, subject to the additional provisions set forth in below: <ol style="list-style-type: none">(i) "Open competitive procedures" (i.e. "public tender" rather than "tender") shall be the default rule. A single envelope procedure shall be used for the submission of goods, works, or technical services (other than consultants' services).(ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids. Advertisements published in foreign language newspapers shall be in compliance with

Procurement Method

such a 30-day-minimum in number of days for bids preparation and submission.

- (iii) Bidding shall not be restricted to pre-registered firms. If registration is required, it shall not be denied to eligible bidders for reasons unrelated to their capacity and resources to successfully perform the contract (e.g., mandatory membership in professional organizations, classification, etc). Post-qualification shall be conducted to verify that the bidder has the capability and resources to successfully perform the contract.
- (iv) Government-owned enterprises in Georgia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the Government. Government-owned enterprises will be subject to the same bid and performance security requirements as other bidders.
- (v) Procuring entities shall use the appropriate Bank's/Association's sample bidding documents, including pre-qualification documents, for the procurement of goods, works, or technical services (other than consultants' services), and shall contain draft contract and conditions of contract including clauses on fraud and corruption, audit and publication of award, all acceptable to the Bank/Association.
- (vi) Bids shall be opened in public, immediately after the deadline for submission of bids. Bidder's representatives shall be permitted to attend the bid opening.
- (vii) Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be requested without the prior approval of the Bank/Association.
- (viii) Evaluation of bids shall be based on quantifiable criteria expressed in monetary terms as defined in the bidding documents, no merit point system and no domestic preference shall be used in the evaluation of bids. Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid and no negotiations shall be carried out prior to contract award.
- (ix) Civil works contracts of long duration (e.g. more than eighteen (18) months) shall contain an appropriate price adjustment clause.

<u>Procurement Method</u>
(x) No bid shall be rejected purely on the basis that the bid price is higher than the estimated budget for that procurement. All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
(b) Shopping
(c) Direct Contracting

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 the 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.

<u>Procurement Method</u>
(a) Least-cost Selection
(b) Selection Based on Consultants' Qualifications
(c) Single Source Selection
(b) Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional

instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), 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 Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, consultants' services and training for the Project	69,825,000	70%
(2) Front-end Fee	175,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	70,000,000	

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 \$5,000,000 equivalent may be made for payments made prior to this date but on or after March 10, 2009, for Eligible Expenditures under Category 1.

2. The Closing Date is October 31, 2011.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each January 15 and July 15 Beginning July 15, 2014 through January 15, 2039	 2%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable

on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006.
2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004 and revised in October 2006.
4. "Environmental Assessment and Protection Framework" or "EF" means the Borrower's environmental assessment and protection framework furnished to the Bank on January 30, 2009, setting forth the mitigating, monitoring and institutional measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental impacts to levels acceptable to the Bank.
5. "Environmental Management Plan" or "EMP" means the Borrower's environmental management plans acceptable to the Bank to be prepared in accordance with the provisions of the EF.
6. "European Committee for Standardization" or "ECS" means an international association established and operating pursuant to the Statutes of Comité Européen de Normalisation (CEN) of 25th October 1919, as amended on December 6, 1954, or any legal successor thereto.
7. "Georgian Lari" or "GEL" means the currency of the Borrower.
8. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005, (as amended through February 12, 2008), with the modifications set forth in Section II of this Appendix.
9. "Implementation Agreement" means the agreement entered into between the RDMRDI and TRRC and referred to in Section I.A.3 of Schedule 2 to this Agreement setting forth the obligations of both parties in relation to the Project implementation in a manner satisfactory to the Bank.
10. "Monitoring and Evaluation Indicators" means the agreed performance indicators set forth in a supplemental letter to be utilized by the Borrower under the Project

to measure the progress in the implementation of the Project and the degree to which the objectives therefore are being achieved.

11. "Original Financing Agreement" means the Development Credit Agreement for the Secondary and Local Roads Project between Georgia and the International Development Association, dated, July 1, 2004 (Credit No. 3938 GE).
12. "Original Project" means the Project described in the Original Financing Agreement.
13. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October 2006.
14. "Procurement Plan" means the Borrower's procurement plan for the Project, dated February 18, 2009, 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. "RDMRDI" means the Borrower's roads department of the Ministry of Regional Development and Infrastructure responsible for managing the Borrower's road network or any legal successor thereto.
16. "TRRC" means the Eurasia Transport Corridor Investment Center/Transport Reform and Rehabilitation Center established pursuant to President's Order No. N-161, dated April 21, 2000, or any legal successor thereto.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

"Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association ("Preparation Advance"), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance."

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (l) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“Preparation Advance” means the advance referred to in the Loan Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“Conversion Date” means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”