
CREDIT NUMBER 4516 GE

Financing Agreement

(Regional and Municipal Infrastructure Development Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *3 October*, 2008

CREDIT NUMBER 4516 GE

FINANCING AGREEMENT

AGREEMENT dated *3 October*, 2008, entered into between GEORGIA ("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 twenty five million five hundred thousand Special Drawing Rights (SDR 25,500,000) (variously, "Credit" and "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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 January 15 and July 15 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 cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 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 Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following: that the event specified in 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 Condition of Effectiveness consists of the following: that the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following: that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. 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
16 Gorgasali Street
0105 Tbilisi
Georgia

Facsimile:

995-32-446461

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
Washington, D.C.

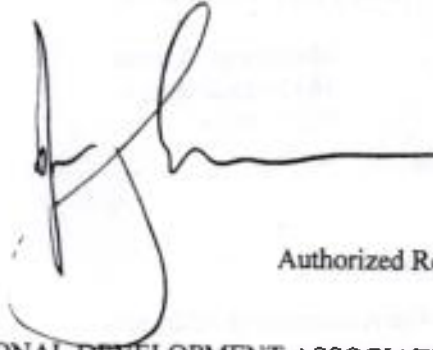
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AGREED at Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

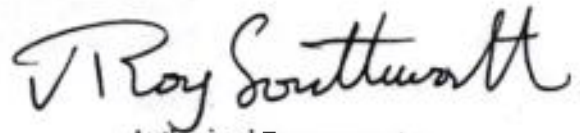
By



Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) improve the efficiency and reliability of selected municipal infrastructure and service; and (b) assist in restoring infrastructure and services and in improving housing conditions for conflict affected people of the Recipient.

The Project consists of the following parts:

Part A: Infrastructure Investment

1. Provision of financial resources to creditworthy LSGs to finance Investment Subprojects for the rehabilitation and expansion of priority municipal services and infrastructure needs on a sustainable basis, through the carrying out of works and provision of goods and consultants' services.
2. Provision of financing on a grant basis to carry out Investment Subprojects for municipal services and infrastructure projects in non-creditworthy LSGs, through the carrying out of works and provision of goods and consultants' services.

Part B: Emergency Rehabilitation and Construction

Emergency Rehabilitation of conflict damaged regional and municipal infrastructure and services, including public buildings and shelters, and construction of durable housing, through the carrying out of works and provision of goods and consultants' services.

Part C: Institutional Development

Enhancing the institutional capacity and performance of the Ministry of Finance, the Municipal Development Fund, LSGs, municipalities, and utilities to assist in the carrying out of programs for the development of capacity to discharge public services functions with economy and efficiency, through the provision of goods, consultants' services and training.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the Operations Manual acceptable to the Association, said manual to provide key instruments for the execution and coordination of the Project, including: (a) procurement and financial management procedures; (b) eligibility criteria for Participating LSGs and Investment Subprojects; (c) terms and conditions for Investment Subproject Financing; (d) supervision of procurement decisions and implementation of Investment Subprojects; and (e) the staffing, management and responsibilities of the Project Implementing Entity.
2. For the purpose of ensuring the proper coordination and execution of the Project, the Recipient shall maintain the supervisory board of the Project Implementing Entity, chaired by the Prime Minister of Georgia or the Minister of Finance. The functions of said Board shall include, *inter alia*: (a) overall supervision of the implementation of the Project; (b) inter-agency coordination to achieve the Project objectives; and (c) review and approval of the annual work programs' budgets and reports for the operation of the Project Implementing Entity.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity on a grant basis under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions acceptable to the Association ("Subsidiary Agreement").
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

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

D. Safeguards

1. The Recipient shall ensure that all measures necessary for the carrying out of an Environmental Screening, as defined in the Operations Manual, shall be taken in a timely manner for all Investment Subprojects, and shall include adequate information on the carrying out of such measures as part of the reporting requirements outlined in the Operations Manual. The Recipient shall ensure that Environmental Impact Assessments shall be carried out and Environmental Management Plans shall be developed in a timely manner for all Investment Subprojects requiring such assessments and/or planning and shall provide and maintain adequate information on the carrying out of such Environmental Impact Assessments and implementing such Environmental Management Plans as part of the supervision responsibilities referred to in paragraph A.1 of this Section. For Investment Subprojects determined to be eligible for financing under Part B of the Project, completion of Environmental Screening and Environmental Management Plan satisfactory to the Association shall be required prior to commencement of any works.
2. The Recipient shall ensure that for any activity to be undertaken under the Project involving the involuntary acquisition of land or the temporary or permanent involuntary resettlement or displacement of the occupants or owners of such land, a Resettlement Action Plan satisfactory to the Association as defined shall be prepared and implemented in accordance with the Resettlement Policy Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and shall cause the Project Implementing Entity to 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 one month 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. Without limitation on the provisions of Part A of this Section, the Recipient shall cause the Project Implementing Entity to prepare and furnish to the Association 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 cause the Project Implementing Entity to 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 (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 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 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.**
 - (a) The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works under Parts A and C of the Project. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Methods

- (a) Limited International Competitive Bidding
- (b) National Competitive Bidding, subject to the additional provisions set forth in below:
 - (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 30 days for the preparation and submission of bids. Advertisements published in foreign language newspapers shall be in compliance with 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.

Procurement Methods	
(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 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.
(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.
(c)	Shopping
(d)	Direct Contracting

- (b) The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works under Part B of the Project. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Methods	
(a)	Modified International Competitive Bidding
(b)	Limited International Competitive Bidding

Procurement Methods	
(c)	Simplified National Competitive Bidding, subject to the additional provisions on National Competitive Bidding set forth above except that the period provided for preparation and submission of bids may be shortened to not less than 15 days, simplified bidding document acceptable to the Association can be used, bid security may not be requested and bids can be submitted by electronic media acceptable to the Bank/Association.
(d)	Shopping with higher procurement threshold than normally used.
(e)	Direct Contracting
(f)	Procurement from United Nations agencies

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.**
 - (a) 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.

Procurement Method	
(a)	Quality-Based Selection (QBS)
(b)	Fixed Budget Selection (FBS)
(c)	Least-Cost Selection (LCS)
(d)	Consultants' Qualifications Selection (CQS)
(e)	Single-Source Selection (SSS)
(f)	Individual Consultants

- (b) Under Part B of the Project, Consultants' Qualifications Selection method (CQS) may also be used if the contract value is more than US\$200,000.

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 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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Works and Goods under:		
(a) Part A.1 of the Project	12,732,000	60%
(b) Part A.2 of the Project	4,466,000	85%
(c) Part B of the Project	6,366,000	50%

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(2) Consultants' services	1,856,000	80%
(3) Training	80,000	100%
TOTAL AMOUNT	25,500,000	

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 six million four hundred thousand Special Drawing Rights (SDR 6,400,000) equivalent may be made for payments made prior to this date but on or after September 15, 2008, for Eligible Expenditures.
2. The Closing Date is June 30, 2013.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15, commencing January 15, 2019 to and including July 15, 2028	5%

* 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. "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" means a process depending in its breadth, depth, and type of analysis on the Environmental Assessment category attributed to an Investment Subproject as a result of the Environmental Screening; and implying evaluation of an Investment Subproject's potential environmental risks and impacts, and identification of means of preventing, minimizing, mitigating, or compensating for any adverse environmental impacts.
5. "Environmental Screening" means a mandatory review of all proposed Investment Subprojects undertaken with the purpose of categorizing them by expected environmental risks and impacts, filtering out proposals grossly detrimental for the environment, and determining appropriate extent and type of Environmental Assessment to be applied to the Investment Subprojects accepted for further processing.
6. "Environmental Impact Assessment" or "EIA" means a study carried out for the selected Investment Subprojects to identify and assess their potential environmental impacts, evaluate alternatives, and design appropriate mitigation, management, and monitoring measures.
7. "Environmental Management Plan" or "EMP" means a document developed for an Investment Subproject (as hereinafter defined), which details the measures to be taken during its implementation and operation to eliminate or offset adverse environmental impacts, or to reduce them to acceptable levels, as well as the actions needed to implement these measures.
8. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006).

9. "Investment Financing Agreement" means an agreement entered into between a Participating LSG and the Project Implementing Entity for the purposes of the Project, in accordance with the provisions of the Operations Manual.
10. "Investment Subproject" means an eligible subproject to be carried out by a Participating LSG (as hereinafter defined) utilizing the proceeds of Investment Subproject Financing (as hereinafter defined).
11. "Investment Subproject Financing" means a financing made or proposed to be made by the Project Implementing Entity (as hereinafter defined) to a Participating LSG (as hereinafter defined) for an Investment Subproject out of the proceeds of the Credit.
12. "Lari" means the lawful currency of the Recipient.
13. "MOF" means the Ministry of Finance of the Recipient.
14. "Operations Manual" means the manual prepared by the Project Implementing Entity (as hereinafter defined) dated September 17, 2008: (a) specifying the managerial, financial, administrative, engineering and environmental policies and procedures of the Project Implementing Entity (as hereinafter defined) for the execution of the Project and the eligibility criteria for selection of Investment Subprojects and Participating LSGs (as hereinafter defined); and (b) including Annex 2 thereto "Environmental Assessment Guidelines" which provides the framework requirements and procedures for Environmental Screening and preparation of Environmental Assessments including Environmental Impact Assessments and Environmental Management Plans for the Project, as such Operations Manual may be amended from time to time with the agreement of the Association.
15. "Participating LSGs" mean the Local Self Governments established and operating by virtue of Organic Law No. 2304-IIS of December 16, 2005 on Local Self-Government Units, which have been selected for carrying out Investment Subprojects under Part A and Part B of the Project in accordance with the eligibility criteria set forth in the Operations Manual.
16. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
17. "Procurement Plan" means the procurement plan for the Project prepared by the Project Implementing Entity, dated September 17, 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.

18. "Project Implementing Entity" means the Municipal Development Fund established pursuant to Presidential Decree No. 294 of the President of Georgia, dated June 7, 1997, as amended to date.
19. "Project Implementing Entity's Legislation" means the Charter of the Municipal Development Fund established pursuant to Decree No. 118 of the Government of Georgia dated July 23, 2005, as amended to date.
20. "Resettlement Action Plan" or "RAP" means the resettlement action plan, satisfactory to the Association, to be prepared and implemented by the Project Implementing Entity for carrying out the Project in accordance with the Resettlement Policy Framework (as hereinafter defined), to set out, *inter alia*, the principles and objectives of the RAP, the affected persons' eligibility criteria, compensation, assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements in conformity with the Resettlement Policy Framework (as hereinafter defined).
21. "Resettlement Policy Framework" means the Recipient's framework, dated September 17, 2008 satisfactory to the Association, for the carrying out of land acquisition activities under the Project, which Framework sets out the procedures to be followed in the carrying out of said activities, as such Framework may be amended from time to time with the prior approval of the Association.
22. "Subsidiary Agreement" means the project implementation agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.
23. "Training" means expenditures incurred by the Recipient in connection with carrying out training activities under Part C of the Project, including travel costs and per diem for local trainees and trainers, study tours, workshops, conferences, and non-degree fellowships, rental of facilities and equipment and training materials and related supplies.