

May 16, 1997

His Excellency
Mikhail Chkvaseli
Minister of Finance
Ministry of Finance
70, Irakli Abashidze Street
380062 Tbilisi
Georgia

Re: GEORGIA - IDF Grant for Decentralization and
Municipal Management - IDF Grant No. TF27526

Excellency:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement to make to Georgia (the Recipient) a grant in an amount not exceeding US\$343,000 (the Grant).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter. Upon receipt by the Association of the copy of this Letter countersigned by you, this Letter will become effective as of the date of countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Basil G. Kavalsky
Director
Country Department IV
Europe and Central Asia Region

AGREED:

GEORGIA

By /s/ Mikhail Chkvaseli
Authorized Representative

Date: May 23, 1997

Annex

Purposes, Terms, and Conditions of the Grant

1. The purpose of the Grant is to provide assistance to the Recipient in the drafting of legislation establishing the legal and regulatory framework of sub-national government bodies and the implementation of a municipal data base, as a first step toward the introduction of a new municipal accounting system.

2. The activities (the Activities) for which the Grant is given are as follows:

Part A: Legal/Institutional Framework

(a) review of the existing legal/institutional framework of local government, with regard to both internal regulatory mechanisms and the relationship between local government and the central government.

(b) provision of a foreign expert in municipal legislation to the Committee on Regional Affairs and Local self-Government (the Committee) for a period of about four months. The task of such expert shall include:

- drafting
- (i) assisting the Committee in the conception, definition and of a law establishing local elections;
 - (ii) advising the Committee as well as other relevant central/local government bodies on the institution of municipal councils, which has already been upheld by executive decree;
 - (iii) presenting the Committee with alternative models of legislation defining the allocation of prerogatives and responsibilities between central and local government; and
 - (iv) at a later stage, providing the Committee with the same kind of assistance with regard to alternative models of regional administration.

(c) organization of two seminars and a study tour for selected members of the Committee and local government officials.

Part B: Municipal Data Base

(a) identification and prioritization of the respective needs, in terms of the data base's structure, of the Recipient's Ministry of Finance (MOF) and the participating municipalities;

(b) preparation of the financial data collection system of the municipalities participating in the pilot phase;

(c) conception and drawing of the data base as well as programming of the data base software, and acquisition and distribution of the required hardware;

(d) conception and drawing of a proposed internet link for the municipalities participating in the pilot phase, which could provide rapid and direct access to useful technical information;

(e) implementation and monitoring of the system over a twelve month period;

(f) evaluation of results and report on the potential for extension of the data base to other municipalities, on the basis of the final assessment of pilot phase results and design of a comprehensive automated municipal accounting system;

(g) organization - in the course of the pilot phase - of two seminars for local government officials and managers, aimed at maximizing the benefits of the exercise and ensuring an adequate transfer of knowledge to municipalities; and

(h) procurement of computer equipment necessary for carrying out the above Activities.

3. Expenditures to be financed out of the proceeds of the Grant are as follows:

Category	Amount of the Grant Allocated (in U.S. Dollars)	% of Expenditures to be Financed
(1) Consultants' services	280,000	100%
(2) Goods	63,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally

TOTAL

343,000

For the purposes of this paragraph, the term:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; and

(b) "local expenditures" means expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures.

4. The Recipient, through the Parliamentary Committee and the MOF's Foreign Assistance Coordination Unit, shall carry out the Activities with due diligence and efficiency; promptly provide the funds, facilities, services, and other resources required for the purpose; furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; and from time to time exchange views with the Bank's representatives on the progress and results of the Activities.

5. Except as the Bank shall otherwise agree, procurement of the consultants' services required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

6. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and the Bank shall disburse funds therefrom to or on the order of the Recipient to meet the expenditures specified in paragraph 3 above. The Recipient shall submit a written application for withdrawal of such funds in the form specified by the Bank. Withdrawal applications for the Grant shall be: (a) signed on behalf of the Recipient by an authorized official or any other person authorized by him or her for such purpose; and (b) accompanied by evidence of the expenditures made, or, if the Bank shall so agree, to be made. Authenticated specimen signature of the designated person shall be provided with the first application. To facilitate the carrying out of the Activities, the Recipient may open a special deposit account (the Special Account) in U.S. Dollars in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II hereto.

7. The Bank may require that withdrawals from the Grant Account be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than the equivalent of US\$100,000; (b) services of individual consultants costing less than the equivalent of US\$50,000, and (c) goods, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

8. The Grant shall be disbursed in U.S. dollars. However, the Recipient may request any other currency required to meet an expenditure to be financed by the Grant, and the Bank will purchase that currency with U.S. dollars.

9. Withdrawals from the Grant Account shall be made only for expenditures for services supplied from countries eligible under the Procurement Guidelines and Consultant Guidelines. No withdrawals shall be made on account of payments for any taxes levied by, or in the territory of, the Recipient.

10. No withdrawals from the Grant Account shall be made after a date two years from the date of signature by the Bank of this Letter-Agreement, or such later date that the Bank may establish by notice to the Recipient (the Closing Date), except that the Bank may disburse against withdrawal applications for expenditures incurred prior to the Closing Date, which are received by the Bank within four months after the Closing Date. Any amount of the Grant then remaining unwithdrawn shall be canceled.

11. The Bank may at any time, by notice to the Recipient, suspend further withdrawals from the Grant Account if any of the following events has occurred: (a) funds withdrawn shall not have been used for the purpose agreed between the Recipient and the Bank; (b) the Activities shall not have been carried out in accordance with the standards or methods agreed between the Recipient and the Bank; (c) the Recipient shall not have complied with any of the obligations herein specified; or (d) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank

or any development credit agreement with the International Development Association shall have been suspended.

12. The Bank may, by notice to the Recipient, cancel any amount of the Grant remaining unwithdrawn (a) at any time after withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 11 above; or (b) if the Recipient fails to take action, satisfactory to the Bank, regarding the implementation of the Activities by November 12, 1997.

Attachment I

Procurement

Section I. Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of this Section I.

Part B: Procedure for the Selection Consultants

1. Selection Based on Consultants' Qualifications

Services for the Establishment of Municipal Data Base under paragraph 2, Part B (a) through (h) of the Annex estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for the Legal/Institutional Framework of Local Government under paragraph 2, Part A (a) through (c) of the Annex shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part C: Review by the Bank of the Selection of Consultants

1. Prior Review

(a) With respect to each contract for the employment of consulting firms for the Activities under paragraph 2 of the Annex, estimated to cost the equivalent of \$100,000, or more, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for the Activities under paragraph 2 of the Annex, estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

2. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall

apply.

Section II. Procurement of Goods

Goods shall be procured: (a) in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines); and (b) under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines. The review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to such contracts, provided that the word "bids", in such paragraph 4, shall be read as "quotations".

Attachment II

Special Account

1. For the purposes of this Attachment:

(a) the term "eligible categories" means the categories set forth in paragraph 3 of the Annex to this Letter-Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities to be financed out of the proceeds of the Grant allocated from time to time to the eligible categories in accordance with the provisions of paragraph 3 of the Annex to this Letter-Agreement; and

(c) the term "Authorized Allocation" means the amount of US\$100,000 to be withdrawn from the Grant Account and deposited in the Special Account pursuant to paragraph 3 (a) hereof.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) The Recipient shall furnish to the Bank a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested

and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Grant Account under the eligible categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Bank shall

not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 11 of the Annex to this Letter-Agreement; or

(c) once the total unwithdrawn amount of the Grant allocated to the eligible categories shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible categories shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

