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FINANCING NUMBER 4234 GE

Financing Agreement

(Second Poverty Reduction Support Operation)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 16, 2006

FINANCING NUMBER 4234 GE

FINANCING AGREEMENT

Agreement dated October 16, 2006, entered into between GEORGIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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 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 thirteen million five hundred thousand Special Drawing Rights (SDR 13,500,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V - EFFECTIVENESS

- 5.01. 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
70, Irakli Abashidze Street
0162 Tbilisi
Georgia

Facsimile:

99532292079

6.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS
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 /s/ Aleksi Aleksishvili
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Roy Southworth
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. The Recipient has achieved satisfactory progress in: (a) improving the policy content of the annual budget preparation and execution, including better linking of the MTEF to the budget cycle; (b) developing and implementing the MTEF based budgetary process; and (c) increasing the focus on improved efficiency of public expenditures.
2. The Recipient has: (a) maintained the publication of the State Procurement Agency Report on procurement processes, activity and performance, as well as remedial action processed to address deficiencies; and (b) submitted to Parliament amendments to the Public Procurement Law to adopt international practices of retroactive financing in public procurement.
3. The Recipient has submitted to Parliament the draft Law on the Chamber of Control elevating its mandate and responsibilities to a supreme audit institution in line with International Organization of Supreme Audit Institutions standards.
4. The Recipient has: (a) carried out its treasury reforms, including the implementation of: (i) the central government Treasury Single Account; and (ii) nationwide Treasury rules and guidelines; and (b) adopted and initiated the implementation of the strategy to produce annual consolidated financial statements in accordance with internationally accepted accounting and reporting standards.
5. The Recipient has submitted to Parliament the draft Law on Local Self-Government Budget.
6. The Recipient has: (a) formulated and initiated a consultation process for a strategic vision for administrative and civil service reform; (b) adopted and initiated the implementation of the Action Plan to Implement the Anti-corruption Strategy; and (c) implemented baseline survey to assess point of service corruption in education.
7. The Recipient has: (a) achieved satisfactory implementation of the Energy Sector Medium Term Strategic Action Plan; and (b) adopted an acceptable organizational model for gas supply which ensures that the Recipient fully benefits from available international competition.

8. The United Energy Distribution Company of Georgia has achieved a collection rate of at least 65%.

9. The Recipient has submitted to Parliament the draft Debt Management Law for the electricity sector.

10. The Recipient has made satisfactory implementation of the legislation for permits and licensing simplification.

11. The Recipient has implemented customs policy and institutional reforms aimed at eliminating corruption therein, including: (a) adopting a new customs code; and (b) re-organizing and re-staffing the Customs Office.

12. The Recipient has established the National Agency for Standardization and Metrology and the National Accreditation Body.

13. The Recipient has: (a) made the targeted social assistance program operational; (b) established targeting and administrative bench mark indicators; and (c) budgeted adequate resources to fund the program.

14. The Recipient: (a) is participating fully in the current TIMSS and PIRLS; and (b) has achieved satisfactory progress in developing prototype quality assurance arrangements for the general secondary system.

15. The Recipient has: (a) defined and piloted the Basic Benefit Package in two regions; (b) adopted the primary health care master plan; (c) achieved satisfactory progress in developing the hospital sector master plan; and (d) achieved satisfactory progress in integrating the primary healthcare master plan and the hospital sector master plan.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	13,500,000
TOTAL AMOUNT	13,500,000

C. Deposits of Financing Amounts.

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain, on terms and conditions satisfactory to the Association, a deposit account in Dollars (“Foreign Currency Account for PRSO II”).

2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Account for PRSO II. Upon each deposit of an amount of the Financing into the Foreign Currency Account for PRSO II, the Recipient shall convert such an amount into Lari and deposit such Lari amount into the Treasury Single Account.

D. Audit.

The Recipient shall:

1. have the Foreign Currency Account for PRSO II audited by independent auditors acceptable to the Association, in accordance with terms of reference and consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than April 30, 2007, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

3. furnish to the Association such other information concerning the Foreign Currency Account for PRSO II and its audit, as well as the Treasury Single Account, as the Association shall reasonably request.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. Closing Date. The Closing Date is July 31, 2007.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing February 15, 2017 to and including August 15, 2026	1%
commencing February 15, 2027 to and including August 15, 2046	2%

* 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

Section I. Definitions

1. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Group	Sub-group	Description of Item
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
2. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 3. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter of development policy, dated September 6, 2006 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

4. “Foreign Currency Account for PRSO II” means the account referred to in Part C.1 of Section II of Schedule 1 to this Agreement.
5. “Treasury Single Account” means the account in Lari of the Ministry of Finance at the National Bank of Georgia referred to in Part C.2 of Section II of Schedule 1 to this Agreement.
6. “Lari” means the currency of the Recipient.
7. “MTEF” means the Medium-term Expenditure Framework used to plan and execute the budget of the Recipient.
8. “TIMSS” means the Trends in Mathematics and Science Study.
9. “PIRLS” means the Progress in International Reading Literacy Study.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

- 7.. 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 definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

