

CONFORMED COPY

CREDIT NUMBER 4516 GE

Project Agreement

(Regional and Municipal Infrastructure Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

MUNICIPAL DEVELOPMENT FUND

Dated October 3, 2008

CREDIT NUMBER 4516 GE

PROJECT AGREEMENT

Agreement dated October 3, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and MUNICIPAL DEVELOPMENT FUND (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between Georgia (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is the Executive Director of the Municipal Development Fund.

3.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

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

3.03. The Project Implementing Entity's Address is:

Municipal Development Fund
7b Yetim Gurjy St.
Tbilisi 0105
Georgia

Facsimile:
995-32-94-04-39

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Van Roy Southworth

Authorized Representative

MUNICIPAL DEVELOPMENT FUND

By: /s/ Lasha Gotsiridze

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements and Eligibility Criteria for Participating LSGs

1. Eligibility of Participating LSGs shall be determined on the basis of eligibility criteria set forth in the Operations Manual and monitoring to be carried out by the Project Implementing Entity in accordance with the provisions of Section I.A.1 of Schedule 2 to the Financing Agreement, with respect to Participating LSGs' performance under their respective Investment Financing Agreement.

B. Anti-Corruption

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

C. Selection Procedures for and Terms and Conditions of Investment Subproject Financing:

1. Investment Subprojects shall be selected in accordance with the selection criteria set forth in the Operations Manual.
2. Investment Subproject Financing shall be made in accordance with terms and conditions set forth in the Operations Manual, and unless otherwise agreed by the Project Implementing Entity and the Association, shall include the following terms:
 - (a) The maximum total amount of Investment Subprojects in an eligible Participating LSG under Part A.1 of the Project: \$8,000,000 equivalent, unless otherwise agreed with the Association and the maximum total amount of Investment Subprojects in an eligible Participating LSG under Part A.2 of the Project: \$1,500,000 equivalent, unless otherwise agreed with the Association.
 - (b) Minimum financial contribution to be made available by each Participating LSG out of its own resources: 20% of total cost of Investment Subprojects financed under Part A.1 of the Project; 15% of total cost of Investment Subproject financed under Part A.2 of the Project, and 0% of total cost of Investment Subproject financed under Part B of the Project.

- (c) Currency: the Investment Subproject Financing shall be extended in Lari determined as of the date or respective dates of disbursement.
 - (d) Repayment terms and interest rate for the Investment Subproject Financing under Part A.1 of the Project are: (i) 50% of amount of the Investment Subproject Financing shall be repayable over a period not to exceed ten (10) years following a grace period not to exceed eighteen (18) months at an interest rate of 12%; (ii) 30% of the Investment Subproject Financing shall be made available on a grant basis; and (iii) the remaining 20% of the Investment Subproject Financing shall be equal to the contributions made by a Participating LSG out of its own resources as defined in 2(b) above.
 - (e) Under Part A.2 of the Project, 85% of the Investment Subproject Financing shall be made on a grant basis and 15% of such Investment Subproject Financing shall be equal to the contributions made by a Participating LSG out of its own resources.
3. No expenditures for goods, works or services required for an Investment Subproject shall be eligible for financing out of the proceeds of the Credit unless the Investment Subproject Financing for such Investment Subprojects shall have been approved by the Association, except as provided for in paragraph 4 below.
 4. Investment Subprojects costing less than two million Dollars equivalent do not require prior approval by the Association, except in those cases where such Investment Subprojects would be classified as an Environmental Assessment Category "A" Investment Subprojects or require a RAP, all in accordance with the provisions of the Operations Manual.
 5. When presenting an Investment Subproject Financing to the Association for approval, the Project Implementing Entity shall furnish to the Association an Investment Subproject appraisal report (SAR), in form satisfactory to the Association, which includes: (i) the description of the proposed Investment Subproject and the respective expenditures proposed to be financed out of the proceeds of the Credit; (ii) the Environmental Assessment category assigned to the proposed Investment Subproject and confirmation that all relevant requirements for preparation of Environmental Assessment, Environmental Management Plan and/or Resettlement Action Plan have been met, and in the case of any Environmental Assessment Category "A" Investment Subprojects, the Executive Summary of the Environmental Impact Assessment; (iii) technical, financial and economic analysis of the proposed Investment Subproject; and (iv) the proposed terms and conditions of the Investment Subproject Financing, including the schedule of amortization of the Investment Subproject Financing to be used for the Investment Subprojects.

6. Investment Subproject Financing shall be made on terms whereby the Project Implementing Entity shall obtain, by written contract (the Investment Financing Agreement) with the Participating LSG, rights and obligations adequate to protect the interests of the Association and the Project Implementing Entity, including:
- (a) require the Participating LSG to operate the Investment Subprojects with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;
 - (b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Credit shall be procured in conformity with the provisions of Schedule 2 to the Financing Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Investment Subprojects;
 - (c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Investment Subprojects, the operation thereof, and any relevant records and documents;
 - (d) obtain all such information as the Association or the Project Implementing Entity shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Participating LSG and to the benefits to be derived from the Investment Subprojects;
 - (e) require that the Participating LSG, under Part A.1 of the Project, shall repay 50% of the Investment Subproject Financing and the interest accrued in accordance with the amortization schedule;
 - (f) suspend or terminate the right of the Participating LSG to the benefits of the Project upon failure by such Participating LSG to perform its obligations under its agreement with the Project Implementing Entity; and
 - (g) require that: the Participating LSG shall provide for the further maintenance of the Project output, shall not sell or burden it with any legal obligations towards third parties without the written consent of the Project Implementing Entity, prior to full repayment of the principal and the interest of the subloan for the purpose of Investment Subprojects under Part A.1 of the Project.

7. Any financing made by the Project Implementing Entity out of its own resources, or the Project Implementing Entity acting as a financial intermediary for other cofinanciers, shall be made available to a Participating LSGs on the same financial terms and conditions as set forth in paragraph 2 of this Section and the Operations Manual, unless otherwise approved by the Association.

D. Safeguards

1. The Project Implementing Entity 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, and shall include adequate information on the carrying out of such measures as part of Operations Manual.
2. The Project Implementing Entity shall prepare and carry out the Environmental Impact Assessments and Environmental Management Plans 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 Section I.A.1 of Schedule 2 to the Financing Agreement. 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.
3. The Project Implementing Entity 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

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later than one month after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

2. For the purpose of Part B of the Project, the Project Implementing Entity shall monitor and evaluate the progress of that part of Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one calendar quarter, and shall be furnished to the Recipient not later than one week after the end of the period covered by such report.
3. The Project Implementing Entity shall provide to the Recipient not later than October 31, 2013, for incorporation in the report referred to in Section 4.08(c) of the General Conditions all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.