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LOAN NUMBER 7962-GE

# Project Agreement

(Additional Financing for the Regional and Municipal Infrastructure Development  
Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

MUNICIPAL DEVELOPMENT FUND

Dated November 8, 2010

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**LOAN NUMBER 7962-GE**

**PROJECT AGREEMENT**

Agreement dated November 8, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and MUNICIPAL DEVELOPMENT FUND (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between GEORGIA (“Borrower”) and the Bank. The Bank 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 Loan 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 Loan 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 V 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 Bank 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 Bank’s Address is:

International Bank for Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Municipal Development Fund  
150, D. Agmashenebeli Avenue  
Tbilisi 0112  
Georgia

Facsimile:  
995-32-484555

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Asad Alam

Authorized Representative

MUNICIPAL DEVELOPMENT FUND

By /s/ Levan Chichinadze

Authorized Representative

**SCHEDULE****Execution of the Project****Section I. Implementation Arrangements****A. Institutional Arrangements and Eligibility Criteria for a Participating LSG**

Eligibility of a Participating LSG 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 Loan Agreement, with respect to a Participating LSG's 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 Bank, shall include the following terms:

(a) The maximum total amount of Investment Subprojects in an eligible Participating LSG shall be: (i) \$8,000,000 equivalent under Part A.1 of the Project; and (ii) \$2,500,000 equivalent under Part A.2 of the Project, unless otherwise agreed with the Bank.

(b) Minimum financial contribution to be made available by each Participating LSG out of its own resources shall be: (i) 20% of total cost of Investment Subprojects financed under Part A.1 of the Project; and (ii) 15% of total cost of Investment Subproject financed under Part A.2 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 Loan unless the Investment Subproject Financing for such Investment Subprojects shall have been approved by the Bank, except as provided for in paragraph 4 below.

4. Investment Subprojects costing less than two million five hundred thousand Dollars equivalent do not require prior approval by the Bank, 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 Bank for approval, the Project Implementing Entity shall furnish to the Bank an Investment Subproject appraisal report (SAR), in form satisfactory to the Bank, which includes: (i) the description of the proposed Investment Subproject and the respective expenditures proposed to be financed out of the proceeds of the Loan; (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 Bank 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 including in accordance with the provisions of Anti-Corruption Guidelines applicable to the recipients of the loan proceeds other than the Borrower, and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' services to be financed out of the proceeds of the Loan shall be procured in conformity with the provisions of Schedule 2 to the Loan 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 Bank if the Bank 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 Bank 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 LSG 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 Bank.

#### **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 Loan Agreement. For Investment Subprojects determined to be eligible for financing under the Project, completion of Environmental Screening and Environmental Management Plan satisfactory to the Bank 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 Bank as defined shall be prepared, completed and fully implemented in accordance with the Resettlement Policy Framework prior to the commencement of any works.

## **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 5.08 (b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later two weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower through the Project Implementing Entity to the Bank of the overall Project Report.

2. The Project Implementing Entity shall provide to the Borrower not later than September 30, 2013, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank 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 Bank, 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 Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these

financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

**Section III. Procurement**

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