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**CREDIT NUMBER 3758-GE**

# **Project Agreement**

**(Second Social Investment Fund Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**GEORGIAN SOCIAL INVESTMENT FUND**

**Dated May 29, 2003**

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**CREDIT NUMBER 3758-GE**

**PROJECT AGREEMENT**

AGREEMENT, dated May 29, 2003 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and GEORGIAN SOCIAL INVESTMENT FUND (GSIF).

WHEREAS (A) by the Development Credit Agreement of even date herewith between GEORGIA (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eleven million Special Drawing Rights (SDR 11,000,000) on the terms and condition set forth in the Development Credit Agreement, but only on condition that the GSIF agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) The GSIF, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**Definitions**

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

**ARTICLE II**

**Execution of the Project**

Section 2.01. (a) The GSIF declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the GSIF shall otherwise agree, the GSIF shall carry the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) The GSIF shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the GSIF shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and the GSIF, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with the GSIF on said plan.

Section 2.04. (a) The GSIF shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) The GSIF shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the GSIF of its obligations under this Agreement.

### **ARTICLE III**

#### **Management and Operations of the GSIF**

Section 3.01. GSIF shall carry on its operations and conduct its affairs in accordance with sound administrative, and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. GSIF shall at all times operate and maintain its equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound practices.

Section 3.03. GSIF shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

### **ARTICLE IV**

#### **Financial Covenants**

Section 4.01. (a) GSIF shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) GSIF shall:
- (i) have its records, accounts and financial statements (balance sheets, statements of revenues and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
  - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon the GSIF's reporting obligations set out in paragraph 4 of Schedule 2 to this Agreement, the GSIF shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which includes:

- (i) A brief written discussion of the progress of the Project including explanation of significant variances between actual and budget amounts for the period;
- (ii) A Statement of Sources and Uses of Funds (SSUF) which sets forth actual and budgeted sources and applications of funds for the Project, both cumulatively and for the period covered by the said report, shows applications of funds by main categories of expenditures as per the Development Credit Agreement and includes actual to budget comparisons;
- (iii) A summary of expenditures which sets forth actual and budgeted applications of funds for the Project, both cumulatively and for the period covered by said report, shows applications of funds by main Project activities and includes actual to budget comparisons;
- (iv) A balance sheet showing accumulated funds of the Project, bank balances, other assets of the Project, and liabilities, if any;
- (v) Output Monitoring Report, which describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (vi) Procurement Process Monitoring Report, which sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the

period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Effective Date; Termination; Cancellation and Suspension**

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of the GSIF thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 15 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify the GSIF of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

## **ARTICLE VI**

### **Miscellaneous Provisions**

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

Telex:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

For the GSIF:

Georgian Social Investment Fund  
39 (a) I. Chavchavadze Ave.  
380062 Tbilisi  
Georgia

Telex:

212348 MOFIN

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the GSIF, may be taken or executed by the Executive Director or such other person or persons as the Executive Director shall designate in writing, and the GSIF shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.



IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Tbilisi, Georgia, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Tefvik M. Yaprak

Authorized Representative

GEORGIAN SOCIAL INVESTMENT FUND

By: /s/ Zviad Gonadze

Authorized Representative

## **SCHEDULE 1**

### **Procurement and Consultants' Services**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured 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, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section, as applicable.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

Works estimated to cost \$30,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Minor Works

Works estimated to cost less than \$30,000 per contract, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotations for the required work, and who has the experience and resources to successfully complete the contract.

3. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract shall be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost \$30,000 equivalent or less per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

5. Community Participation

Goods and works for Microprojects under Part B of the Project may be procured directly by the Community Development Committee in accordance with procedures acceptable to the Association as defined in the Operating Manual.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts under Parts B and C of the Project, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract procured under Part B; and (ii) each contract procured under Part C.1 estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first two contracts for works procured in accordance with Part C.2; and (ii) each contract for goods estimated to cost the equivalent of \$30,000 or more, the following procedures shall apply:

- (A) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (B) prior to the execution of any contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (C) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultants Guidelines, and the provisions of paragraph 3.13 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for community development under Part A of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits under Part C of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultants Guidelines.

2. Selection based on Consultants' Qualifications

Services for Microprojects including design for constructions under Part B and impact and evaluation studies under Part C of the Project estimated to cost less than \$100,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultants Guidelines.

3. Individual Consultants

Services of individual consultants for: (a) under Parts A, B and C of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) under Part C of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A Plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan as updated from time to time as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultants Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 of the Consultant Guidelines shall apply.

## SCHEDULE 2

### Implementation Program

1. (a) The GSIF shall notify and obtain prior approval of the Association for any changes in the appointment of or terms of employment of the executive director, deputy executive director or area and department managers.

(b) The GSIF shall ensure that: (i) Microprojects are identified, selected, appraised, approved, implemented and evaluated in accordance with the procedures set forth or referred to in the Operating Manual and the applicable Framework Agreement; and (ii) the GSIF's operations shall be carried out in accordance with the procedures set forth or referred to in the Operating Manual.

(c) The GSIF shall not amend or waive any provision of the Operating Manual without the prior consent of the Association.

2. The GSIF shall carry out annually, an independent technical and managerial audit of implementation of the Project, under terms of reference satisfactory to the Association.

3. The GSIF shall: (a) furnish to the Association the draft Framework Agreement and such other documents and information as the Association may request in respect of any of Microprojects for the Association's review and approval prior to GSIF's approval of: (i) any social Microproject estimated to cost \$50,000 equivalent or more; (ii) any economic Microproject estimated to cost \$75,000 equivalent or more; and (iii) all co-financed Microprojects regardless of their size.

4. The GSIF shall ensure that EIAs shall be carried out in a timely manner for all Microprojects requiring such EIAs and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

5. The GSIF shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 15, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this

Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 15, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

6. GSIF shall prepare an annual work plan and budget to be agreed with the Association.

7. GSIF shall ensure that the community contribution for all Microprojects shall be at least 8% of the overall costs in the form of cash or in-kind contribution.