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**CONFORMED COPY**

**GRANT NUMBER H205 GE**

# **Financing Agreement**

**(Public Sector Financial Management Reform Support Project)**

**between**

**GEORGIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 10, 2006**

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**GRANT NUMBER H205 GE**

**FINANCING AGREEMENT**

AGREEMENT, dated March 10, 2006, between GEORGIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association 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 grant in an amount equivalent to two million one hundred thousand Special Drawing Rights (SDR 2,100,000) (“Grant”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section V of Schedule 2 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 Payment Dates are April 1 and October 1 in each year.
- 2.05. The Payment Currency is Dollars.

**ARTICLE III – PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient

shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV – REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.
  - (b) The Government of the Recipient has failed to perform its obligations under the Memorandum of Understanding.
  - (c) (i) Subject to sub-paragraph (ii) of this paragraph:
    - (A) the right of the Recipient to withdraw the proceeds of any loan or grant made to the Recipient by a Development Partner for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or
    - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
  - (ii) Sub-paragraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that:
    - (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the recipient to perform any of its obligations under such agreement; and
    - (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

**ARTICLE V – EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Recipient has created Project sub-accounts in its Treasury and established a system for the managing of the relevant foreign currency account, all in a manner satisfactory to the Association.
  - (b) The Recipient has signed the Memorandum of Understanding between the Government of Georgia and the Development Partners concerning pooled fund support for the Public Sector Financial Management Reform Support Project.
  - (c) The Recipient has obtained from other Development Partners an amount of at least \$500,000 in support of the Project.
- 5.02. The Additional Legal Matter consists of the following, namely that the Memorandum of Understanding has been duly authorized by the Recipient and is legally binding upon the Recipient in accordance with its terms.
- 5.03. 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 Str.  
0162 Tbilisi  
Georgia

Telex:

212 348 MOFIN

6.03. The Association's Address is:

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

Cable:	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/ Van Roy Southworth

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to support the Recipient's Program: (a) to strengthen the institutional capacity of key ministries and agencies to use more effectively and efficiently public resources; and (b) to improve accountability in the use of public resources.

The Project consists of the following parts:

#### 1. Medium Term Expenditures Framework (MTEF) and Budget Management

(a) further development of the MTEF and integration of the MTEF in the budget planning process;

(b) development of realistic macro-economic framework for the MTEF and the budget process;

(c) improvements in the strategic and annual budget planning in the MoF;

(d) improved oversight and monitoring of the budget implementation by the MoF;

(e) strengthening the procedures for strategic budget planning and management in line ministries;

(f) improving the arrangements for the financing of territorial budgets;

(g) introducing an internal public expenditure review process;

(h) development and implementation of a capacity building and training strategy covering the MoF and line ministries; and

(i) preparation of a transparency, information and communication strategy aimed at establishing greater transparency and public accountability within the budget process.

#### 2. Treasury and Budget Execution

(a) Development of the Treasury's role and function in leading the accounting reform process, including defining accounting standards and regulations;

(b) introduction of a training program leading to certification of public accountants and gradual adoption of IPSAS cash and accrual accounting standards;

- (c) support towards establishing a professionalized public accounting community;
- (d) enhancing the budget accounting and reporting in line ministries, PLEs and other government entities;
- (e) improving the quality of public accounts and reports;
- (f) strengthening the cash management procedures in the Treasury and other spending agencies;
- (g) improving the efficiency of procurement related information sharing; and
- (h) introduction of an integrated Public Financial Management System.

3. Human Resources Management Information System

- (a) Development of a Human Resources Management Information System (HRMIS);
- (b) development of an automated payroll calculation module linked to HRMIS, as well as budgeting and public expenditure management functions;
- (c) establishment of a database designed to provide improved access to accurate and timely personnel information in each government unit; and
- (d) improving the execution of human resource remuneration management functions.

4. Public Accountability and Oversight of Public Financial Management

- (a) Strengthening the framework for the organization and management of the Chamber of Control;
- (b) revising the legal framework governing the activities of the Chamber of Control;
- (c) strengthening the human resources capacity of the Chamber of Control;
- (d) developing an audit methodology; and
- (e) strengthening the external relations capacity of the Chamber of Control.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Institutional and Other Arrangements**

The Recipient shall carry out the Project in accordance with the POM and the provisions of the MOU and shall maintain the following institutional arrangements:

##### **1. Project Management Committee (PMC)**

The PMC shall provide overall oversight and policy guidance for the Program. Its membership shall consist of senior decision makers within the government at Minister and/or First Deputy Minister level or equivalent and of representatives of the Development Partners. The PMC shall meet twice a year: (a) once to endorse the implementation report for the previous AWP and to agree on the new AWP for the following year; and (b) once as a mid-term review meeting to agree on in-year adjustments to the Program and the budget.

##### **2. Project Implementation Team (PIT)**

(a) The PIT shall function as the secretariat to the PMC. The PIT shall be coordinated by a Deputy Minister of Finance; its membership shall comprise all Project Component Managers. It shall be supported by an IT Coordinator and an Administration and Procurement Support Team.

(b) The PIT shall meet regularly to discuss progress of the Project, monitor procurement and disbursements and to arrange, and prepare for, technical monitoring missions of the Development Partners.

(c) The PIT shall prepare the AWP based on inputs from the Project Component Managers pursuant to the procedures as set forth in the POM.

##### **3. Project Component Managers (PCMs)**

The PCMs are managers within the ministries and agencies of the Government who have been given specific responsibility for the relevant Project component on the basis of their normal lines of accountability within their respective organization. The PCMs are: (i) the Deputy Minister(s) responsible for budget and fiscal policy; (ii) the Head of Treasury Service; (iii) the Head of the MoF Budget department; (iv) the Head of the Public Service Bureau; and (v) the Deputy Chairman of the Chamber of Control.



**4. IT Coordinator**

The Head of the MoF's Informational Technologies and Analytical Department shall be designated as IT Coordinator for the Project responsible for providing technical coordination of all IT related Project activities.

**5. Administrative and Procurement Support Team (APST)**

In order to support the PCMs, the Government shall maintain a small team of experts familiar with the Association's procurement rules and procedures and experienced in implementing donor-financed projects. The APST shall ensure that: (i) the Project activities are well coordinated; (ii) issues affecting or potentially affecting the Project implementation are identified in a timely manner; (iii) technical advice is provided to PCMs in critical areas of Project management; (iv) necessary Project inputs are provided in a timely and cost-efficient manner; (v) Project resources are appropriately managed in accordance with the Association's and Development Partners' requirement for procurement and financial management; and (vi) effective Project monitoring and progress reporting is carried out.

**Section II. Implementation Covenants**

1. The Recipient shall, not later than May 1 in each year, prepare and furnish for approval by the Association a draft annual work plan for the following calendar year, in scope and format agreed with the Association and the other Development Partners.

2. The Recipient shall: (a) carry out, not later than June 1, 2006, an informed analysis regarding the establishment of a country wide network of physical connectivity for the public financial management system under the Project; and (b) thereafter, guided by the results of this analysis, take measures to provide physical connections to establish the network indispensable for the carrying out of this Project in accordance with a timetable acceptable for the Association.

3. The Recipient's contribution to the Project financing shall be not less than 4% of the Project annual budget for the given fiscal year, and not less than 6% of total Project cost overall.

**Section III. Project Monitoring, Reporting, Evaluation**

**A. Project Reports**

1. (a) The Recipient 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 set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the

Bank not later than one (1) month after the end of the period covered by such report.

- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
  - (i) Clear national expenditure priorities identified and allocations to national priorities defended in budget;
  - (ii) Fiscal forecasts prepared for at least three (3) years on a rolling annual basis, links between multi-year estimates and annual budget ceilings are clear and differences explained;
  - (iii) All major public entities submit fiscal reports to central government at least annually, and central government consolidates overall fiscal risk issues into a report;
  - (iv) Routine data collection or accounting systems provide reliable information on resources received in cash and in kind, and expenditures;
  - (v) Timely information is available about the size, composition, and cost of the civil service;
  - (vi) Payroll and nominal roll data cover all of Government and are directly linked, with monthly reconciliation, updates, and reports on adjustments;
  - (vii) Improved scope, nature, legislative scrutiny and follow up on external audits, all central government entities are audited using (primarily) compliance audits which adhere to international auditing standards;
  - (viii) Provision of timely and transparent public financial management related information to Parliament and civil society groups.

## **B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial

Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than five (5) months after the end of such period.

**Section IV. Procurement**

**A. General**

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Selection based on Consultants’ Qualifications
(b) Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

**Section V. Withdrawal of the Proceeds of the Financing**

**A. General**

1. 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, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocation of the amount of the Financing to such Category, and the percentage of expenditures to be financed for Eligible Expenditures in such Category:

<b>Category</b>	<b>Amount of the Grant Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed</b>
Goods, consultant's service, training and operating costs included in the respective AWP	2,100,000	Such percentage of Eligible Expenditures as the Association may determine for each calendar year covered by the respective AWP
<b>TOTAL AMOUNT</b>	<u>2,100,000</u>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The withdrawn proceeds of the Financing as determined by each AWP shall be deposited in a foreign currency sub-account opened and maintained by the Treasury in the National Bank of Georgia. Upon receipt of such amount, the Treasury shall deposit an equivalent Lari amount into the Treasury's Lari-denominated Treasury Single Account to be used to finance Eligible Expenditures under the Project as identified in the respective AWP.
3. The Closing Date is March 1, 2010.

## APPENDIX

### Definitions

1. “Annual Work Plan” or “AWP” means each list of annual activities under the Project prepared by the Recipient and approved by the Development Partners (as hereinafter defined).
2. “Category” means a category set forth in the table in Section V.A.2 of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “Development Partners” means the signatories of the MOU (as hereinafter defined).
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
6. “Lari” means the currency of the Recipient.
7. “MoF” means the Recipient’s Ministry of Finance or any successor thereto.
8. “Memorandum of Understanding” or “MOU” means the memorandum of understanding of even date herewith between the Government of Georgia and its Development Partners, providing for, *inter alia*, common procedures on procurement, disbursements, cooperation and exchange of information with respect to the financial support of the Project.
9. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated January 12, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
11. “Program” means the Recipient’s reform program outlined in the Strategic Vision for Public Financial Management Reform, dated November 2005.
12. “Project Operational Manual” or “POM” means the manual, dated January 12, 2006, setting forth the procedures and institutional arrangements for carrying out the Project.

