

CONFORMED COPY

GRANT NUMBER H204 GE

Financing Agreement

(Infrastructure Pre-Investment Facility)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 8, 2006

GRANT NUMBER H204 GE

FINANCING AGREEMENT

AGREEMENT dated March 8, 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 three million five hundred thousand Special Drawing Rights (SDR 3,500,000) (“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 Grant in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Grant 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 - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Recipient has made appropriate arrangements for its fiscal year 2006 to cover its contribution to the financing requirements of the Project.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance of the Recipient.
- 5.02. The Recipient's Address is:

Ministry of Finance
70, Irakli Abashidze Street
0162 Tbilisi
Georgia

Telex:

212 348 MOFIN

5.03. 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 objective of the Project is to facilitate infrastructure investments that have strategic importance and/or special complexity by ensuring that proper feasibility work is carried out in a timely manner in order to enable the Recipient's government to make sound investment decisions, and where appropriate, to proceed expeditiously with further preparatory steps and mobilize adequate financing for implementation. The Project consists of the following components:

Component 1: Khudoni Hydropower Project Preparation

Carrying out a phased study for the Khudoni Hydropower project to assess its technical, economic and financial feasibility, with proper attention to environment, social, resettlement and other safeguard considerations and, subject to the outcomes of the feasibility assessments, preparation of detailed designs and specifications, and procurement-related and financial advisory services assistance.

Component 2: Preparation of Transit Corridor Projects

(a) Preparation of East-West Highway Improvement Projects

Carrying out a feasibility study, preliminary design and an environmental assessment for the East-West Highway improvement projects, and subsequent preparation of detailed designs and specifications, and procurement-related assistance.

(b) Preparation of the Transit Corridor Projects

Carrying out technical and financial feasibility studies, environmental assessment, and designs for proposed transit corridor projects, to be selected in accordance with their strategic importance, complexity and merit.

SCHEDULE 2

Project Execution

Section I. Institutional Arrangements

1. The MOE shall be responsible for the implementation of Component 1, in accordance with the Project Operational Manual, and shall be assisted in financial management, disbursement, and procurement functions by the PSO.
2. The MOED shall be responsible for the implementation of Component 2, in accordance with the Project Operational Manual, and shall be assisted in financial management, disbursement, and procurement functions by the TRRC.
3. The MOF shall be responsible for decisions and actions concerning the allocation and reallocation of funds under the Project.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare quarterly Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each quarterly Project Report shall cover the period of three (3) month, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

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 of the provisions of Part A of this Section, the Recipient, through the MOE and the MOED, shall prepare and furnish to the Association, as part of the Project Reports not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project, 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 (1) fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Project was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **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.

2. **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 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.

Procurement Method
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Selection based on Consultant's Qualifications
(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultants Guidelines for the Selection of Individual Consultants

C. Review by the Bank of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more, and each contract for consultants' services provided by individuals estimated to cost the equivalent of \$50,000 or more, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Grant

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of this Section and such additional instructions as the Bank 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 category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

Category	Amount of the Grant (expressed in SDR)	Percentage of Expenditures to be Financed
Consultants’ services, and incremental operating costs	3,500,000	85%
TOTAL AMOUNT	<u>3,500,000</u>	

For the purposes of the table in this paragraph 2, the term “incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets and plans acceptable to the Association, and incurred by the Recipient, PSO, or TRRC with respect to Project implementation, management and monitoring, including, but not limited to, advertisement and translation expenses.

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, except that withdrawals up to an aggregate amount not to exceed \$200,000 equivalent may be made for payments made prior to this date but on or after January 1, 2006, for Eligible Expenditures under the Category in Section IV.A.2 of this Schedule 2.

2. The Closing Date is September 30, 2009.

Section V. Other Undertakings

1. The Recipient shall ensure that adequate annual budgetary allocations are being made to cover the Recipient's contribution to the financing requirements of the Project.
2. For road-related projects under Component 2, the Recipient shall ensure that design and construction standards recommended by the European Committee for Standardization on Construction and Design of Roads shall be used.
3. The Recipient shall furnish to the Association, not later than December 31, 2006, its plans for the carrying out of Component 2.B of the Project taking into account the availability of Grant proceeds not committed for activities under Components 1 and 2.A of the Project.

APPENDIX

Definitions

1. “Category” means a category set forth in the table in paragraph 2 of Section IV of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “MOE” means the Recipient’s Ministry of Energy.
4. “MOED” means the Recipient’s Ministry of Economic Development.
5. “MOF means the Recipient’s Ministry of Finance.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
7. “Project Operational Manual” means the Project Operational Manual adopted by the MOE and the MOED, and describing the rules and procedures of Project management, operation and implementation, including, as an attachment, the Safeguard Framework, and satisfactory to the Association.
8. “Procurement Plan” means the Recipient’s Procurement Plan for the Project, acceptable to the Association, dated January 10, 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 .
9. “PSO” means “Electricity Market Support Project Service Organization,” a legal entity established under the Recipient’s Law on Public Legal Entity, dated May 28, 1999, by the Recipient’s Ministry of Fuel and Energy and Ministry of Finance, pursuant to Joint Order No. 51-254, issued on October 31, 2001, and registered on November 1, 2001, by the Recipient’s Ministry of Justice.
10. “TRRC” means the Eurasia Transport Corridor Investment Center/Transport Reform and Rehabilitation Center, established pursuant to President of Georgia’s Order No. N-119, dated April 16, 1995, and re-established as a legal entity under the Recipient’s Law on Public Legal Entity, dated May 28, 1999, pursuant to President’s Order No. N-161, dated April 21, 2000.
11. “Safeguard Framework” means the document adopted by the Government of the Recipient on December 7 2005, and satisfactory to the Association, which

describes the rules and procedures related to environmental, social, and other safeguard policies to be followed during Project implementation.