

CONFORMED COPY

LOAN NUMBER 7962-GE

Loan Agreement

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

between

GEORGIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 8, 2010

LOAN NUMBER 7962-GE

LOAN AGREEMENT

Agreement dated November 8, 2010, between GEORGIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank 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 this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty three million and five hundred thousand United States Dollars (US\$33,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing Parts A and C of the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by

the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall

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

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists namely of the following, that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists namely of the following, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following, namely that, the Subsidiary Agreement has been executed by the Ministry of Finance and the Ministry for Regional Development and Infrastructure on behalf of the Borrower and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of namely of the following, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the Project Implementing Entity and is legally binding upon the Borrower and the Project Implementing Entity 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 Borrower's Representative is the Minister of Finance.
- 6.02. The Borrower's Address is:

Ministry of Finance
16 Gorgasali Street
0114 Tbilisi
Georgia

Facsimile:

995-32-261461

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD 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/ Kakha Baindurashvili

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Asad Alam

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) improve the efficiency and reliability of selected municipal infrastructure and service; and (b) assist in restoring infrastructure and services and in improving housing conditions for conflict affected people of the Borrower.

The Project consists of the Original Project as amended as follows:

Part A: Infrastructure Investment

1. Provision of financial resources to creditworthy LSGs to finance Investment Subprojects for the rehabilitation and expansion of priority municipal services and infrastructure needs on a sustainable basis, through the carrying out of works and provision of goods and consultants' services.

2. Provision of financing on a grant basis to carry out Investment Subprojects for municipal services and infrastructure projects in non-creditworthy LSGs, through the carrying out of works and provision of goods and consultants' services.

Part B: Emergency Rehabilitation and Construction

Infrastructure restoration and improvement of housing conditions for conflict affected people in Georgia, which includes: (i) increasing the volume of water supply, improving public water standpipes and provision of grey water house connection to about 1963 internally displaced people's houses in eleven (11) settlements; (ii) rehabilitating drainage channels and pedestrian crossings in eleven (11) settlements, and constructing a bridge at the Mtkvari River leading to Akhalsopeli settlement; (iii) providing about 133 solid-waste containers and eleven (11) trucks in twelve (12) settlements; and (iv) improving the physical conditions of the walls and floors, and provision of entrance sheds and air ventilators in about 1263 houses in nine (9) settlements, all through the carrying out of works and provision of goods and consultants' services.

Part C: Institutional Development

Enhancing the institutional capacity and performance of municipalities and the Project Implementing Entity to assist in the carrying out of programs for the development of capacity to discharge public services functions with economy and efficiency, including the preparation of: (a) strategic development plans for sustainable cities in a selected number of municipalities; and (b) feasibility studies, engineering designs, construction supervision, monitoring and evaluation activities and technical assistance to

municipalities and the Project Implementing Entity, through the provision of goods, consultants' services and training.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Borrower shall cause the Project Implementing Entity to carry out the Project in accordance with the Operations Manual acceptable to the Bank, said manual to provide key instruments for the execution and coordination of the Project, including: (a) procurement and financial management procedures; (b) eligibility criteria for Participating LSGs and Investment Subprojects; (c) terms and conditions for Investment Subproject Financing; (d) procurement and implementation of Investment Subprojects; and (e) the staffing, management and responsibilities of the Project Implementing Entity.

2. For the purpose of ensuring the proper coordination and execution of the Project, the Borrower shall maintain the supervisory board of the Project Implementing Entity, chaired by the Prime Minister of Georgia. The functions of said Board shall include, *inter alia*: (a) overall supervision of the implementation of the Project; (b) inter-agency coordination to achieve the Project objectives; and (c) review and approval of the annual work programs' budgets and reports for the operation of the Project Implementing Entity.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity on a non-refundable basis under a subsidiary agreement between the Ministry of Finance and the Ministry for Regional Development and Infrastructure on behalf of the Borrower and the Project Implementing Entity, under terms and conditions approved by the Bank ("Subsidiary Agreement").

2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

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

D. Safeguards

1. The Borrower 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 for all Investment Subprojects, and shall include adequate information on the carrying out of such measures as part of the reporting requirements outlined in the Operations Manual. The Borrower shall ensure that Environmental Impact Assessments shall be carried out and Environmental Management Plans shall be developed 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 paragraph A.1 of this Section. 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.

2. The Borrower 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 Borrower shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall cause the Project Implementing Entity to prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall cause the Project Implementing Entity to have the Project Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be: (i) furnished to the Bank not later than six (6) months after the end of such period; and (ii) made publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan 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 Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan 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 Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank 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 and Works

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

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

Procurement Method
(a) Limited International Bidding
(b) National Competitive Bidding, subject to the additional provisions set forth in the Annex to this Schedule 2 required to comply with the provisions of the Procurement Guidelines

Procurement Method
(c) Shopping
(d) 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 the 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 Consultants’ Qualification
(e) Single-Source Selection
(f) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional

instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), 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 Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Works and Goods under:		
(a) Part A.1 of the Project	7,000,0000	50%
(b) Part A.2 of the Project	26,416,250	85%
(2) Consultants’ services under Parts A and C of the Project	0	80%
(3) Training under Parts A and C of the Project	0	100%
(4) Front-end Fee	83,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(5) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	<u>33,500,000</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, except that withdrawals up to an aggregate amount not to exceed eleven million seven hundred twenty five thousand Dollars (\$11,725,000) equivalent may be made for payments made prior to this date but on or after May 1, 2010, for Eligible Expenditures.

2. The Closing Date is June 30, 2013.

Annex to Schedule 2

National Competitive Bidding

Contracts for goods and works and technical services (other than consulting services) procured under the National Competitive Bidding procedures shall comply with the following provisions:

1. **Bidding Documents.** Procuring entity shall use the appropriate standard bidding documents acceptable to the Bank, which documents shall be prepared so as to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Procurement Guidelines.

2. **Eligibility.** (a) The eligibility of bidders shall be as defined under Section I of the Procurement Guidelines; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Bank or the Association for reasons other than those provided in Section I of the Procurement Guidelines, and no restrictions in respect of eligibility to participate in bidding for contracts shall be placed on the basis of nationality of the bidder and/or the origin of goods other than those imposed by primary boycotts. (b) Foreign bidders shall be eligible to participate in bidding under the same conditions as domestic bidders.

3. **No Domestic Preference.** No preference of any kind shall be applied for domestic contractors and/or for or locally manufactured goods.

4. **No Mandatory Registration.** Bidding shall not be restricted to pre-registered firms. If registration is required, registration shall not be denied to eligible bidders for reasons unrelated to their capacity and resources to successfully perform the contract (*e.g.*, mandatory membership in professional organizations, classification, etc).

5. **Participation by Government-owned Enterprises.** (a) Government-owned enterprises in Georgia shall be eligible to participate in bidding only if they establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Government. (b) Government-owned enterprises shall be subject to the same bid and performance security requirements as other bidders.

6. Participation by Joint Ventures. Participation shall be allowed from joint ventures on the condition that foreign firms shall not be required to associate with a local partner in order to bid as a joint venture, and joint venture partners shall be jointly and severally liable for their obligations.

7. Procurement Methods and Procedures. (a) Subject to these provisions, procurement shall be carried out in accordance with open competitive procedures (*i.e.*, “open tender” rather than “tender”) as defined in the sample bidding documents. (b) Procuring entity may use methods of electronic procurement only where such methods are agreed to in advance by the Bank. (c) A single envelope procedure shall be used for the submission of goods, works, or non-consultant services. (d) Cost estimates shall be kept confidential and shall not be disclosed to bidders. (e) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper or in a free and open access website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids. Advertisements published in foreign language newspapers shall be in compliance with such a twenty-eight-day minimum for the preparation and submission of bids. (f) No fees other than the fee for the bidding documents shall be imposed on bidders as a condition for participation. Any fee to be charged for bidding documents shall be reasonable and reflect only the cost of their printing and delivery to prospective bidders, shall be non-refundable, and may be paid in Georgian Lari or in a specified convertible foreign currency equivalent (*i.e.*, USD, EURO, etc.). Amount, currency, method of payment and documents delivery procedure shall be indicated in the Invitation to Bid. (g) Post-qualification shall be conducted to verify that the selected bidder has the capability and resources to successfully perform the contract. (h) Bid evaluations shall be confidential.

8. Bid Opening and Bid Evaluation. (a) Bids shall be opened in public, immediately after the deadline for submission of bids, and bidder’s representatives shall be permitted to attend the bid opening. (b) A copy of the minutes of public bid opening shall be promptly provided to all bidders, and to the Bank with respect to contracts subject to prior review. (c) Extension of bid validity, if justified by exceptional circumstances, may be requested in writing from all bidders before the expiration date and for a minimum period required to complete the evaluation or award a contract, but not to exceed thirty (30) days. No further extensions should be requested without the prior concurrence of the Bank. (d) Evaluation of bids shall be based on quantifiable criteria expressed in monetary

terms as defined in the bidding documents and no merit point system shall be used. (e) Bids that are not substantially responsive to the technical specifications, contract conditions, or other critical requirements in the bidding documents shall be rejected.

9. Award of Contract. (a) Contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform the contract in accordance with pre-defined and pre-disclosed evaluation criteria and no negotiation as to the price or substance shall take place. (b) The procuring entity shall publish the following information on contract award in on a free and open access website or on another means of publication acceptable to the Bank: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated price of each bid that was evaluated; (iv) name of bidders whose bids were rejected and the reasons for their rejection; and (v) name of the winning bidder, price it offered as well as the duration and summary scope of the contract awarded.

10. Rejection of Bids. (a) No bid shall be rejected solely on the basis that the bid price is higher than the estimated budget for that procurement. (b) All bids shall not be rejected and new bids shall not be solicited without the Bank's prior concurrence.

11. Securities. (a) Bid security shall not exceed two percent (2%) of the estimated cost of the contract, and performance security shall not exceed ten percent (10%) of the contract price. (b) Bidders shall be given at least twenty-eight (28) days from the receipt of notification of contract award to submit performance securities. (c) No advance payments shall be made to contractors without the provision of a suitable advance payment security by the contractor. (d) The format of all securities shall be included in the bidding documents acceptable to the Bank.

12. Pre-qualification. (a) Pre-qualification shall be used for large, complex and/or specialized works. (b) Prequalification, where used, shall be based on a "pass/fail" system. (c) Minimum experience, technical and financial requirements shall be explicitly stated in pre-qualification documents acceptable to the Bank.

13. Price Adjustment. Civil works contracts of more than eighteen (18) months shall allow for an appropriate price adjustment clause.

14. Complaints. Complaints related to the procurement process shall be handled in accordance with the provisions of the Procurement Guidelines.

15. Fraud and Corruption. Each bidding document and contract financed out of the proceeds of the Loan shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.14(a) of the Procurement Guidelines. The Bank shall sanction a firm or an individual, at any time, in accordance with prevailing Bank/Association sanctions procedures, including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded a Bank/Association-financed contract; and (ii) to be a nominated sub-contractor, consultant, manufacturer or supplier, or service provider of an otherwise eligible firm being awarded Bank/Association-financed contract.

16. Right to Audit. In accordance with paragraph 1.14(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Loan shall provide that: (i) the bidders, suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have said accounts and records audited by auditors appointed by the Bank; and (ii) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to an obstructive practice as defined in paragraph 1.14(a)(v) of the Procurement Guidelines.

17. Debarment under National System. The Bank may recognize, if requested by the Borrower, exclusion from participation as a result of debarment (black-listing) under the national system, provided that the debarment is for offenses involving fraud, corruption or similar misconduct, and further provided that the Bank confirms that the particular debarment procedure afforded due process and the debarment decision is final.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 15 and September 15 Beginning March 15, 2019 through March 15, 2037	2.63%
On September 15, 2037	2.69%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the

second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 with the modifications set forth in Section II of this Appendix.
2. “Category” means a category set forth in the table in Section IV 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 and revised in October 2006 and May 2010.
4. “Environmental Assessment” means a process depending in its breadth, depth, and type of analysis on the Environmental Assessment category attributed to an Investment Subproject as a result of the Environmental Screening; and implying evaluation of an Investment Subproject’s potential environmental risks and impacts, and identification of means of preventing, minimizing, mitigating, or compensating for any adverse environmental impacts.
5. “Environmental Screening” means a mandatory review of all proposed Investment Subprojects undertaken with the purpose of categorizing them by expected environmental risks and impacts, filtering out proposals grossly detrimental for the environment, and determining appropriate extent and type of Environmental Assessment to be applied to the Investment Subprojects accepted for further processing.
6. “Environmental Impact Assessment” or “EIA” means a study carried out for the selected Investment Subprojects to identify and assess their potential environmental impacts, evaluate alternatives, and design appropriate mitigation, management, and monitoring measures.
7. “Environmental Management Plan” or “EMP” means a document developed for an Investment Subproject (as hereinafter defined), which details the measures to be taken during its implementation and operation to eliminate or offset adverse environmental impacts, or to reduce them to acceptable levels, as well as the actions needed to implement these measures.
8. “Financing Agreement” means the financing agreement for the Project between the Borrower and the Association, dated the same date as this Agreement, as such financing agreement may be amended from time to time. “Financing

Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.

9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
10. “Investment Financing Agreement” means an agreement entered into between a Participating LSG and the Project Implementing Entity for the purposes of the Project, in accordance with the provisions of the Operations Manual.
11. “Investment Subproject” means an eligible subproject to be carried out for the benefit of a Participating LSG (as hereinafter defined) utilizing the proceeds of Investment Subproject Financing (as hereinafter defined).
12. “Investment Subproject Financing” means a financing made or proposed to be made out of the proceeds of the Loan by the Project Implementing Entity (as hereinafter defined) for an Investment Subproject.
13. “Lari” means the lawful currency of the Borrower.
14. “Ministry of Finance” means the Borrower’s Ministry of Finance or any successor thereto.
15. “Ministry of Regional Development and Infrastructure” means the Borrower’s Ministry of Regional Development and Infrastructure or any successor thereto.
16. “Operations Manual” means the manual prepared by the Project Implementing Entity (as hereinafter defined) dated September 13, 2010: (a) specifying the managerial, financial, administrative, engineering and environmental policies and procedures of the Project Implementing Entity (as hereinafter defined) for the execution of the Project and the eligibility criteria for selection of Investment Subproject(s) and Participating LSG(s) (as hereinafter defined); and (b) including Annex 4 thereto “Environmental Assessment Guidelines” which provides the framework requirements and procedures for Environmental Screening and preparation of Environmental Assessments including Environmental Impact Assessments and Environmental Management Plans for the Project, as such Operations Manual may be amended from time to time with the agreement of the Bank.
17. “Original Financing Agreement” means the financing agreement for the Regional and Municipal Infrastructure Development Project between the Borrower and the International Development Association, dated October 3, 2008, as amended to the date of this Agreement (Credit No. 4516).

18. “Original Project” means the Project described in the Original Financing Agreement.
19. “Participating LSG” mean the Local Self Government established and operating by virtue of Organic Law No. 2304-RS of December 16, 2005, on Local Self-Government which have been selected for the carrying out of Investment Subproject(s) under Part A and Part B of the Project in accordance with the eligibility criteria set forth in the Operations Manual.
20. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
21. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated September 13, 2010, 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.
22. “Project Implementing Entity” means the Municipal Development Fund established pursuant to Presidential Decree No. 294 of the President of Georgia, dated June 7, 1997, as amended to date.
23. “Project Implementing Entity’s Legislation” means the Charter of the Municipal Development Fund established pursuant to Decree No. 118 of the Government of Georgia dated July 23, 2005, as amended to date.
24. “Resettlement Action Plan” or “RAP” means a resettlement action plan, satisfactory to the Bank, to be prepared and implemented by the Project Implementing Entity for carrying out activities under the Project in accordance with the Resettlement Policy Framework (as hereinafter defined), to set out, *inter alia*, the principles and objectives, the affected persons’ eligibility criteria, compensation, assistance and rehabilitation entitlements, as well as the monitoring and reporting arrangements in conformity with the Resettlement Policy Framework (as hereinafter defined).
25. “Resettlement Policy Framework” means the Project Implementing Entity’s framework, dated September 17, 2008, satisfactory to the Bank, for the carrying out of land acquisition activities under the Project, which Framework sets out the procedures to be followed in the carrying out of said activities as such Framework may be amended from time to time with the prior approval of the Bank.
26. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity.

27. “Training” means expenditures incurred by the Borrower in connection with carrying out training activities under Part C of the Project, including travel costs and per diem for local trainees, study tours, workshops, conferences, and non-degree fellowships, rental of facilities and equipment and training materials and related supplies.

Section II. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”