

CONFORMED COPY

CREDIT NUMBER 3542 GE

Development Credit Agreement

(Irrigation and Drainage Community Development Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 5, 2001

CREDIT NUMBER 3542 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 5, 2001, between GEORGIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) The Association has received a letter dated May 17, 2001, from the Borrower describing a phased program (the Program) designed to revitalize the irrigation and drainage sectors and to lay the institutional foundation for the long-term sustainability and development of the sectors, and declaring the Borrower's commitment to the implementation of the Program;

(B) the Borrower has requested the Association to support the execution of the Program through extension to the Borrower of loans up to the equivalent of \$90,000,000 over a period of twelve (12) years; and

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project, which supports the first phase of the Program; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries.";

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and

(c) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AAs" means the Amelioration Associations, community-based organizations for water management established as legal bodies under the Borrower's public law;

(b) "Dam Safety Action Plan" means an action plan to address issues regarding dams for the Algeti, Sioni, Zonkari and Tbilisi reservoirs, including dam stability and recommendations on needed reconstruction and repairs;

(c) "Dam Safety Panel" means the Panel for the safety inspection of irrigation dams, to be established in accordance with the provisions of paragraph 7 of Schedule 4 to this Agreement;

(d) "DAWE" means the Department of Amelioration and Water Economy, or any successor entity, of the Borrower's Ministry of Agriculture and Food;

(e) "Development Plan" means a plan to be prepared by an AA, describing a proposed AA Sub-project (hereinafter defined) and providing for the financing of said AA Sub-project from the proceeds of the Credit on a grant basis, including expenditures for goods, works, services and operation and maintenance costs of the AA

in connection with said Sub-project, in accordance with the provisions of Schedule 5 to this Agreement;

(f) "Eligible Categories" means categories (1), (2), (3), (4), (5) and (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 (a) of this Agreement;

(h) "EMP" means the Environmental Management Plan for the Project, satisfactory to the Association, describing the environmental mitigation, monitoring and institutional measures for the Project;

(i) "MAF" means the Ministry of Agriculture and Food of the Borrower;

(j) "National AA Program" means the program for establishment of AAs including financial support for implementation of AA Sub-projects;

(k) "Operational Manual" means the operational manual, prepared and adopted by the Borrower, for the selection and carrying out of AA Sub-projects, including eligibility criteria and procurement and financial procedures for said Sub-projects, as the same may be amended from time to time with the agreement of the Association;

(l) "PCC" means the Projects Coordination Center established by the Borrower according to Presidential Decree No. 149, dated April 23, 2001, for purposes of coordination of on-going agricultural projects funded by the Association, and assigned responsibility for overall management of Project implementation;

(m) "PCCST" means the PCC Core Services Team comprised of the Director of the PCC and staff providing financial, procurement and other coordination services for the Project;

(n) "IDPIU" means the Irrigation and Drainage Project Implementation Unit, established by the Borrower within the PCC, for purposes of Project management;

(o) "PIP" means the Project Implementation Plan for the carrying out of the Project prepared and adopted by the Borrower, as the same may be amended from time to time with the agreement of the Association;

(p) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(q) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on May 22, 1998 and on behalf of the Borrower on May 22, 1998;

(r) "Rehabilitation Program" means the program for rehabilitation of irrigation and drainage infrastructure included in the PIP;

(s) "PCC Advisory Board" means the advisory board established according to Presidential Decree No. 149, dated April 23, 2001, as a consultative body to provide cross-sectoral advice to PCC;

(t) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(u) "SGSA" means a Second Generation Special Account referred to in Part B of Schedule 1 to this Agreement; and

(v) "AA Sub-project" means a Sub-project for rehabilitation and operation and maintenance of a specific irrigation distribution or drainage discharge facility in

connection with the implementation of Part B.1 of the Project, meeting certain eligibility criteria in accordance with the provisions of Schedule 5 to this Agreement, to be carried out under the management of an AA.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty one million three hundred thousand Special Drawing Rights (SDR 21,300,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of: (i) the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit; and (ii) withdrawals made on account of Development Plans under Part B.1 of the Project.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be April 30, 2007 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2011 and ending May 15, 2041. Each installment to and including the installment payable on May 15, 2021 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through its MAF with due diligence and efficiency and in conformity with appropriate financial, administrative, engineering, irrigation and drainage and environmental practices, and shall provide, 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. 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 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower through the PCC shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower through the PCC shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account and the SGSAs 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 financial statements, records and accounts 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 and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower through the PCC shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower through the PCC shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than March 31, 2002, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the

Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower through the PCC shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(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 PIP shall have been amended, suspended, abrogated or waived without the Association's prior consent; and

(c) the Operational Manual shall have been amended, suspended, abrogated or waived without the Association's prior consent.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified: any event specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the PIP has been adopted by the Borrower, satisfactory to the Association;

(b) the Operational Manual has been adopted by the Borrower, satisfactory to the Association; and

(c) the Borrower has taken measures necessary to ensure that AAs are not charged property tax on irrigation drainage infrastructure transferred to the AAs under long-term use arrangements.

Section 6.02. The date ninety (90) days after the date of this Agreement is

hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
70 Irakli Abashidze Str.
380062 Tbilisi
Georgia

Telex:

212-348-MOFIN

For the Association:

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

Cable address:

Telex:

Facsimile:

477-6391

INDEVAS

248423 (MCI) or

(202)

Washington, D.C.

64145 (MCI)

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

GEORGIA

By /s/ Zurab Nogaideli

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in Expenditures SDR Equivalent)	% of Expenditures to be Financed
(1) Works	9,040,000	80%
(2) Development Plans under Part B.1 of the Project	4,480,000	80% of amounts disbursed under a Development Plan
(3) Goods and for other	360,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) 80% of local expenditures items procured locally
(4) Consultants' services and training		
(a) consultants' services including auditing services	1,300,000	80%
(b) training and study tours	480,000	100%
(5) Project Management Ser- vices	1,890,000	100%
(6) Incremental Operating Costs of the PCCCST and the IDPIU	590,000	80% until December 31, 2004, and 70% thereafter
(7) Refunding of Project Preparation Advance	950,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	2,210,000	
TOTAL	21,300,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "Incremental operating costs of the PCCCST and the IDPIU" means operating expenditures incurred by the PCCCST and IDPIU on account of management of Project implementation for communications, utilities, printing and publications, office rent, maintenance and supplies, office security systems, vehicle operation and maintenance, transportation and field trip expenses, and remuneration for support

staff (excluding salaries of civil servants), and such other expenditures as may be agreed upon by the Association; and

(d) "Project Management Services" means services of the professional staff of the PCCCST and IDPIU staff (excluding civil servants).

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) Category 1 set forth in the table in paragraph A.1 of this Schedule, until the amendment to the Law on Amelioration has been enacted, in substance satisfactory to the Association; and (c) Category 2 set forth in the table in paragraph A.1 of this Schedule, until: (i) the amendment to the Law on Amelioration, in substance satisfactory to the Association, has been enacted; and (ii) for each AA Sub-project until a satisfactory Development Plan has been approved by the IDPIU in accordance with the provisions of Schedule 5 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) works under contracts costing less than \$250,000 equivalent each; (c) Development Plans; (d) PCU's training and study tours; (e) Incremental Operating Costs for the PCCCST and the IDPIU; and (f) services costing less than \$100,000 equivalent each for consulting firms and \$25,000 equivalent each for individual consultants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars: (a) a special deposit account in a bank acceptable to the Association on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment in the case of a commercial bank; and (b) a separate SGSA for each AA Sub-project to be carried out by an AA for purposes of Part B.1 of the Project in a bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment in the case of a commercial bank.

2. After the Association has received evidence satisfactory to it that the Special Account and the SGSAs have been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account and the SGSAs shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively either: (a) for Eligible Expenditures; or (b) into SGSAs for payments for Eligible Expenditures. For each payment made by the Borrower out of the Special Account or a SGSA, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account;

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account and SGSAs; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports; and

(d) for advances to SGSAs, until the Borrower has furnished to the Association such documents and other evidence showing that payments out of the SGSAs were made exclusively for Eligible Expenditures.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account or a SGSA was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account or a SGSA will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account or SGSAs.

(d) Refunds to the Association made pursuant to sub-paragraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 6,000,000.

2. Withdrawals of Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement, including appropriate documents and other evidence pertaining to the advances made to the SGSAs, for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,500,000.

SCHEDULE 2

Description of the Project

The objectives of the Project, which supports the first phase of the Program, are to increase agricultural production and farm family incomes by arresting further

deterioration of irrigation and drainage infrastructure and keeping the operable infrastructure functional on approximately 110,000 ha, through: (a) establishment of water management organizations (the AAs) that could perform operation and maintenance of irrigation and drainage systems; (b) repair and rehabilitation of irrigation and drainage infrastructure; and (c) limited support to DAWE.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Irrigation and Drainage Systems Rehabilitation, Operation, and Maintenance

1. Rehabilitation of Irrigation Infrastructure

(a) Rehabilitation of the main water supply systems of three schemes covering approximately 16,330 ha, including the Tashiskari scheme, the Kvemo Alazani scheme and the Meskheta scheme; and

(b) Provision of technical assistance for the design and supervision of the rehabilitation works.

2. Rehabilitation of Drainage Infrastructure

(a) Rehabilitation of two drainage schemes, covering approximately 3,730 ha, including Rioni Choloki and Rioni Khobi; and

(b) Provision of technical assistance for the design and supervision of the rehabilitation works.

3. Targeted Rehabilitation for National AA Program

(a) Targeted rehabilitation of irrigation and drainage infrastructure in urgent need of repairs supplying services to selected schemes under the National AA Program; and

(b) Provision of technical assistance for the design and supervision of the rehabilitation works.

Part B: AA Development and Strengthening for Improved Irrigation and Drainage Management

1. AA Support for Rehabilitation Program and National AA Program

(a) Rehabilitation of tertiary and secondary irrigation and drainage networks in AAs territories in about 20,000 ha under the Rehabilitation Program and 40,000 ha under the National AA Program, in accordance with a Development Plan prepared by each AA for its AA Sub-project.

(b) Technical assistance to the AAs for organizational support, engineering design, supervision and training for the development of AAs, as well as on principles and practices of irrigation and drainage in agriculture.

(c) Provision of equipment and operation and maintenance costs to the AAs, including office items, tools, and remuneration for AA operation and maintenance personnel, in accordance with the provisions of the Development Plan prepared by each AA for its AA Sub-project.

2. AA Establishment Program

(a) Establishment of AAs covering approximately 50,000 ha.

(b) Technical assistance to the AAs for organizational support and training for the development of AAs, as well as on principles and practices of irrigation and

drainage in agriculture.

3. Support for DAWE

Provision of: (a) technical assistance to DAWE; and (b) equipment and vehicles to regional DAWE offices in charge of management of infrastructure under Part A of the Project.

4. Dam Safety Action Program

Provision of technical assistance to begin implementation of a Dam Safety Action Plan.

5. Environmental Management

Carrying out of the mitigation measures included in the EMP and provision of technical assistance for the monitoring and evaluation of EMP implementation.

6. Training and Study Tours

Provision of technical assistance, training and study tours to IDPIU staff, AAs established under the Project, and DAWE in the areas of, inter alia, financial management and accounting, operation and maintenance planning and project administration.

Part C: Project Management

Provision of: (a) technical assistance, including audit services and preparation of the second phase of the Program; (b) equipment; and (c) financing of incremental operating costs for the PCCST and the IDPIU and for the carrying out of monitoring and evaluation activities for the Project.

* * *

The Project is expected to be completed by October 31, 2006.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) 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 (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, works 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 works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,840,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, provided, however, that:

(a) the bidding period should not be less than 30 days from the date of publication of the Invitation to Bid or the date of issuance of the bidding documents to the bidders, whichever is later;

(b) state-owned enterprises in Georgia should be permitted to bid only if they are legally and financially autonomous and operate under commercial law;

(c) the opening of bids should follow immediately after the deadline for bid submission and bidders' representatives should be permitted to attend;

(d) a single envelope procedure should be used for the submission of bids for goods and works;

(e) price negotiations are generally not allowed with recommended bidder prior to contract signature, except where the bid price is substantially above market or budget levels and then only if negotiations are carried out to try to reach a satisfactory contract through reduction in scope and/or reallocation of risk and responsibility which can be reflected in a reduction in contract price; and

(f) contracts for long duration (more than 18 months) should contain appropriate price adjustment provisions.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$361,400 equivalent, may 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.

3. Procurement from IAPSO

As an alternative to international shopping procedures under paragraph 2 above, goods may be procured through the Inter-Agency Procurement Services Office (IAPSO) of the United Nations Development Program (UNDP) in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, 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, works and services required for Part B.1 of the Project may be procured in accordance with procedures acceptable to the Association, in accordance with the provisions of paragraph 3.15 of the Guidelines.

6. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,150,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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 quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, 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 and works 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 for works procured in accordance with international competitive bidding procedures; and (ii) the first three contracts procured in accordance with national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract procured in accordance with international shopping procedures; (ii) the first contract procured in accordance with national shopping procedures; and (iii) the first three contracts procured in accordance with small works procedures, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures or contractor under small works procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of the contract procured under shopping or small works procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) 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

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of

Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

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 Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions 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 design and supervision services under Parts A.1 and A.2 of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Auditing services estimated to cost less than \$150,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for technical assistance to PCCCST, IDPIU, DAWE and AAs for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

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 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, 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.

(c) With respect to each contract for the employment of individual

consultants, estimated to cost less than the equivalent of \$25,000, the terms of reference 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.

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 Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the PIP and the Operational Manual.

2. The Borrower shall maintain the PCCCST until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to it responsibility for overall management of Project implementation and coordination, including:

(a) preparation of disbursement applications under the Credit;

(b) management of the Special Account and the SGSAs referred to in Schedule 1 to the Development Credit Agreement; and

(c) maintenance of records and accounts related to the Project and arranging for the audit thereof.

3. The Borrower shall maintain the IDPIU until completion of the Project, with staff, resources and terms of reference satisfactory to the Association, and assign to it responsibility for Project management, including:

(a) preparation of bidding documents and participation in administration of bidding procedures and of contracts under the Project;

(b) preparation of quarterly progress reports and submission thereof through the PCCCST to the Borrower and the Association not later than 30 days after the end of each quarter, the first such report to be furnished to the Association not later than April 30, 2002; and

(c) management and supervision of all Project activities, including AA Sub-projects, in accordance with procedures and eligibility criteria set forth in Schedule 5 to this Agreement.

4. The Borrower shall maintain, until completion of the Project, the PCC Advisory Board with composition and responsibilities satisfactory to the Association.

5. The Borrower shall prepare and furnish to the Association by September 30 in each year, for its review and concurrence, an annual work program for the Project for the following calendar year, including procurement and financing plans of the PCCCST and IDPIU based upon an annual budget for the PCC and IDPIU acceptable to the Association.

6. The Borrower shall ensure that all measures necessary for the carrying out of the EMP shall be taken in a timely manner and shall include adequate information on the carrying out of such measures in the progress reports referred to in paragraph 3(b) of this Schedule.

7. By March 31, 2003, the Borrower shall establish the Dam Safety Panel with

composition and terms of reference satisfactory to the Association.

8. By September 30, 2004, the Borrower shall establish a regulatory office for AA oversight, satisfactory to the Association.

9. The Borrower shall ensure that all AA activities in connection with the implementation of the Project are documented in Development Plans approved by IDPIU, satisfactory to the Association, and are carried out in accordance with the Operational Manual.

10. The Borrower shall:

(a) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2004, a report on the review of options for DAWE's restructuring, including inter alia, transfer to AAs or federation of AAs of main irrigation and drainage systems currently under the management of MAF and the need and location of an AA regulatory office; and

(b) review with the Association, by June 30, 2004, or such later date as the Association shall request, the report referred to in paragraph (a) above, and, thereafter, undertake actions for the implementation of the said restructuring plan, based on the conclusions and recommendations of the report and the Association's views on the matter.

11. The Borrower shall:

(a) prepare under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31, 2004, a report on the applicability of the Law on Amelioration and recommend amendments, if needed; and

(b) review with the Association, by June 30, 2004, or such later date as the Association shall request, the report referred to in paragraph (a) above, and, thereafter, undertake actions for the amendment of the Law on Amelioration, based on the conclusions and recommendations of the report and the Association's views on the matter.

12. The Borrower 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 of measures included in the Program 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 March 31, 2004, a mid term 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 and the Program 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 Program and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by June 30, 2004, 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 carrying out of the Program 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.

SCHEDULE 5

Procedures, Eligibility Criteria and Terms and Conditions Applicable to Sub-projects

Part A: Procedures

In submitting a proposal for an AA Sub-project to the IDPIU for its review and approval, an AA shall prepare and furnish a Development Plan which shall contain: (a) a description of the proposed AA Sub-project; (b) bill of quantities and cost estimates for the AA Sub-project; (c) the proposed implementation stages of the AA Sub-project; and (d) a description of AA's contribution to the implementation of the AA Sub-project which would be equivalent to US\$20 per hectare to be provided either in cash or in kind. Upon approval of the Development Plan, the Borrower through the IDPIU, shall make part of the proceeds of the Credit available to the AA on a grant basis for the financing of the activities included in the Development Plan.

Part B: Eligibility Criteria

1. All irrigation and drainage rehabilitation activities under the Project shall be selected in accordance with criteria satisfactory to the Association, including the criteria set forth below.

2. In selecting a rehabilitation activity, the Borrower, through the PCCCST and the IDPIU, shall ensure that:

(a) an irrigation activity shall seek to rehabilitate an existing irrigation infrastructure, with no irrigation of new areas or expansion of the existing irrigation infrastructure;

(b) depending on the assessment of the potential impact, if any, of the activity on other countries, the activity shall be in conformity with policies and procedures acceptable to the Association, and shall be submitted to the Association for its prior review and approval.

3. In addition to the criteria listed in paragraph 2 of this Part, the Borrower, through the PCCCST and the IDPIU shall ensure for each irrigation and drainage activity that it shall be in conformity with all local and national environmental standards, and its design and implementation shall provide for adequate mitigation measures to ensure full compliance with local and national health, environmental and safety standards and requirements.

Part C: Terms and Conditions

1. Each irrigation and drainage activity shall be carried out with due diligence and efficiency under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with appropriate administrative, financial, technical, engineering and environmental standards, including local and national environmental requirements.

2. The Borrower, through the IDPIU, shall allow the representatives of the Association, if the Association shall so request, to inspect the sites, works, plants, goods and construction included in the AA Sub-project, the operation thereof, and any relevant records and documents.

3. The Borrower, through the PCCCST and IDPIU, shall ensure the maintenance of records and accounts for expenditures incurred under the AA Sub-project and financed from the proceeds of the Credit and the submission to the Association at regular intervals of statements with respect to such records and amounts.

4. The Borrower, through the PCC, shall ensure that procurement of goods, works and services required for the AA Sub-projects and to be financed from the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

5. The Borrower shall cause the IDPIU to obtain the Association's prior approval of the first three AA Sub-projects.



