Financing Agreement

(First East-West Highway Improvement Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 13, 2006
FINANCING AGREEMENT

AGREEMENT dated December 13, 2006, between GEORGIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in the amount of twelve million nine hundred thousand Special Drawing Rights (SDR 12,900,000) to assist in financing the project (“Project”) described in Schedule 1 to this Agreement.

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are February 15 and August 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollars.
ARTICLE III - PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS

4.01. The Additional Condition of Effectiveness consists of the following, namely that the EMP has been approved by the RDMED.

4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister of Finance of the Recipient.

5.02. The Recipient’s Address is:

   Ministry of Finance
   70, Irakli Abashidze Street
   0162 Tbilisi
   Georgia

5.03. The Association’s Address is:

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

   Cable: INDEVAS
   Telex: 248423 (MCI) or 64145 (MCI)
   Facsimile: 1-202-477-6391
AGREED in the District of Columbia, United States of America, as of the day and year first above written.

GEORGIA

By /s/ Vasil Sikharulidze

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shigeo Katsu

Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to: (a) contribute to the gradual reduction of road transport costs and improve access, ease of transit and safety along the central part of Georgia’s East-West corridor through upgrading a segment of the East-West Highway from Tbilisi to Rikoti; and (b) strengthen the capacity of the government, RDMED and the local road construction industry to plan and better manage the road network. The Project consists of the following components:

Component 1: Upgrade of the Agaiani to Igoeti Section of the E60 Highway

Upgrade of the Agaiani to Igoeti section (approximately 13 kilometers) of the E60 highway from two lanes to four lanes through the financing of works and consultants’ services for works supervision.

Component 2: Road Sector Institutional Development and Capacity Building

Strengthening the institutional capacity of the government, RDMED and local road construction industry.

Component 3: Project Management, Monitoring and Evaluation

Institutional support to the RDMED and the TRRC related to Project implementation, audits and Project monitoring and evaluation.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. The RDMED shall be responsible for the overall coordination, oversight, and strategic and policy direction of the Project. Pursuant to the terms and conditions of the Project Implementation Support Agreement, the RDMED shall be assisted in Project-related financial management, procurement, disbursement, and monitoring and evaluation by the TRRC.

2. The MoF shall be responsible for decisions and actions concerning withdrawal applications and the allocation and reallocation of funds under the Project.

3. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the EMP and the RPF. The Recipient shall not assign, amend, abrogate or waive the EMP or the RPF without the prior approval of the Association.

4. The Recipient shall maintain the TRRC with terms of reference, resources and staff necessary for proper Project implementation and satisfactory to the Association.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

The Recipient shall monitor and evaluate, or cause to be monitored and evaluated, the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial
Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

4. By or before February 28, 2007, the RDMED shall appoint an independent auditor under terms of reference acceptable to the Association.

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 Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

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

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

B. Particular Methods of Procurement of Goods 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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>
C. Particular Methods of Procurement of Consultants’ Services

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

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

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection Based on Consultants’ Qualification</td>
</tr>
<tr>
<td>(d) Single-source Selection</td>
</tr>
<tr>
<td>(e) Individual Consultants</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

1. The following table: (a) takes into account that any land acquisition under the Project, Training and the consultants’ services under Component 2 of the Project are being fully funded by the Recipient; and (b) specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), and the percentage of expenditures to be financed for Eligible Expenditures in the Category:
## Category | Amount of the Credit Allocated (expressed in SDR) | Percentage of Expenditures to be Financed
--- | --- | ---
Goods, works, consultants’ services, and Incremental Operating Costs | 12,900,000 | 70%
TOTAL AMOUNT | 12,900,000 | 70%

### 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 $2 million equivalent may be made for payments made prior to this date but on or after November 1, 2006, for Eligible Expenditures under the above Category.

2. The Closing Date is February 28, 2011.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing February 15, 2017 to and including August 15, 2026</td>
<td>1%</td>
</tr>
<tr>
<td>commencing February 15, 2027 to and including August 15, 2046</td>
<td>2%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


3. “EMP” means the Environmental Management Plan referred to in paragraph 3 of Section I of Schedule 2 to this Agreement, describing the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Association.


5. “Incremental Operating Costs” means reasonable and necessary incremental expenses incurred by the Recipient with respect to Project implementation, management and monitoring, including the costs of staff salaries (excluding salaries of the Recipient’s civil service staff), communication, editing, printing and publication, translation, vehicle operation and maintenance, bank charges, local travel costs and field trip expenses, office rentals, utilities, equipment and supplies.

6. “MoF” means the Ministry of Finance of the Recipient, or any successor or successors thereto.


8. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 31, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

9. “Project Implementation Support Agreement” means the agreement between the RDMED and the TRRC, dated August 23, 2004, as amended, setting forth the rights and responsibilities of the parties related to the Project.

10. “RDMED” means the Road Department of the Ministry of Economic Development of the Recipient, or any successor or successors thereto.
“RPF” means the Resettlement Policy Framework, adopted by the RDMED on October 23, 2006, describing the policies, procedures, plans and actions (including the resettlement action plan), and institutional measures related to land acquisition and other social impacts that may arise during the Project and other phases related to the Project, and satisfactory to the Association.

TRRC” means the Transport Reform and Rehabilitation Center, a Legal Entity of Public Law, established pursuant to President’s Order No. 161, dated April 21, 2000, as revised most recently by President’s Order No. 436, dated October 4, 2004 and President’s Order No. 1065, dated December 19, 2005, or any successor thereto.

“Training” means expenditures incurred in connection with Project-related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.