Re: GEORGIA: Japanese Grant for the Co-financing of the Education System
Realignment and Strengthening Program (APL#2)
PHRD Grant No. TF057515

In response to the request for financial assistance made on behalf of Georgia (“Recipient”),
I am pleased to inform you that the International Development Association (“Association”),
acting as administrator of grant funds provided by Japan under the PHRD Technical Assistance
Program, proposes to extend to the Recipient a grant in an amount not to exceed four million nine
hundred fifty thousand United States Dollars ($4,950,000) (“Grant”) on the terms and conditions
set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex,
to assist in the financing of the project described in the Annex (“Project”).

The Recipient represents, by confirming its agreement below, that it is authorized to enter
into this Agreement and to carry out the Project in accordance with the terms and conditions set
forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized
official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to
the Association. Upon receipt by the Association of this countersigned copy, this Agreement
shall become effective as of the date specified by the Association in accordance with Section 6.02 of the Annex to this Agreement.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Van Roy Southworth
Country Manager for Georgia
South Caucasus Country Unit
Europe and Central Asia Region

AGREED:
GEORGIA
By /s/ Aleksi Aleksishvili
Title: Minister of Finance
Date: November 17, 2006

Attachments:


Article I

Standard Conditions; Definitions

1.01.  **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 20, 2006 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02.  **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, in this Agreement or in the Financing Agreement (“Financing Agreement”) for the Project, signed by the Association and the Recipient on the date of this Agreement.

Article II

Project Execution

2.01.  **Project Objectives and Description.** The objective of the Project is to increase the quality and efficiency of primary and secondary education in Georgia, through the implementation of the institutional and policy framework developed in APL#1, as well as reconstruction of schools in dire physical condition. The Project consists of the following components, which include the activities (“Activities”) for which the Grant is given:

**Component 1: Improving the Pedagogical Environment**

A.  Strengthening the national curriculum and student assessment system, with the Grant financing consultants’ services and training.

B.  Strengthening the professional development of teachers, with the Grant financing consultants’ services and training.

**Component 2: Improving the Physical Learning Environment**

Improving the physical learning environment, through construction, furnishing and equipping about eight schools, with the Grant financing consultants’ services related to the development of school maintenance manual, and training to school management officials and school engineers in the use of the school maintenance manual.

**Component 3: Project Management, Monitoring and Evaluation**

Institutional support to the MDF, the PCU, the NCAC and the TPDC related to their Project-related operations, audits and Project monitoring and evaluation, with the Grant financing an outcome evaluation of the school capital investment program.
2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the MoES, the PCU, the MDF, the NCAC and the TPDC, in accordance with the provisions of Article II of the Standard Conditions and this Article II.

2.03. **Institutional and Other Arrangements.**

(a) The MoES shall be responsible for the overall coordination, oversight, and strategic and policy direction of the Project. The MoF shall be responsible for decisions and actions concerning withdrawal applications and the allocation and reallocation of funds under the Project.

(b) The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Components 1 and 3 Operational Manual, and Components 2 and 3 Operational Manual, including the EMP. The Recipient shall not assign, amend, abrogate or waive the Components 1 and 3 Operational Manual and Components 2 and 3 Operational Manual, including the EMP, without the prior approval of the Association.

(c) In implementing Components 1 and 3 of the Project, the MoES shall be assisted by the NCAC and the TPDC. The MoES shall be assisted in financial management, procurement and disbursement functions by the PCU, and subsequently, following a no objection from the Association, by the NCAC and TPDC. The MoES shall enter into a component implementation agreement satisfactory to the Association with the PCU, and subsequently with the NCAC and the TPDC.

(d) In implementing Components 2 and 3 of the Project, the MoES shall: (a) ensure that schools eligible for Credit financing shall be selected in accordance with terms and conditions, and under the procedures satisfactory to the Association; and (b) be assisted in financial management, procurement and disbursement functions, and implementation functions by the MDF. The MoES and the MDF shall enter into a component implementation agreement satisfactory to the Association.

(e) The Recipient shall maintain the PCU, the NCAC, the TPDC and the MDF with terms of reference, resources and staff necessary for proper Project implementation and satisfactory to the Association.

2.04. **Project Monitoring, Reporting and Evaluation.**

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the 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) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the Association not later than six (6) months after the Closing Date. In order to assist the
Recipient in preparing the Completion Report, the Recipient shall employ consultants in accordance with the provisions of Section 2.06 of this Agreement.
2.05. Financial Management.

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the Association as part of the Project Report not later than forty five (45) days after the end of each calendar semester, covering the half year period, in form and substance satisfactory to the Association.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for such period shall be furnished to the Association not later than six (6) months after the end of such period.

2.06. Procurement

All services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section III, Schedule 2 to the Financing Agreement.

Article III

Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of (a) the Standard Conditions, (b) this Section, and (c) such additional instructions as the Association may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 1, 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (in Dollars)</th>
<th>% of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services and Training:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) For Activities Under Component 1.B of the Project</td>
<td>1,100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) For Activities Under Components 1.A, 2 and 3 of the Project</td>
<td>3,850,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,950,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2009.

**Article IV**

**Effectiveness; Termination**

4.01 The Financing Agreement has been executed and delivered, and all conditions precedent to its effectiveness have been fulfilled.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance of the Recipient.
5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
70, Irakli Abashidze Street
0162 Tbilisi
Georgia

5.03. **Association’s Address.** The Association’s Address referred to in Section 7.01 of the Standard Conditions 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