Financing Agreement

(Education System Realignment and Strengthening Program (APL#2))

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 17, 2006
FINANCING AGREEMENT

AGREEMENT dated November 17, 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 ten million two hundred thousand Special Drawing Rights (SDR 10,200,000) 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 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 - REMEDIES OF THE ASSOCIATION**

4.01 The Co-financing Deadline for the effectiveness of the Co-financing Agreement is February 28, 2007.

**ARTICLE V - EFFECTIVENESS**

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) the MoES and the MDF have entered into a component implementation agreement satisfactory to the Association; and

(b) the MDF has adopted the Components 2 and 3 Operational Manual.

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

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

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

6.02. The Recipient’s Address is:

Ministry of Finance
70, Irakli Abashidze Street
0162 Tbilisi
Georgia
6.03. The Association’s Address is:

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

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) or 1-202-477-6391  
Washington, D.C. 64145 (MCI)

AGREED at Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

By /s/ Aleksi Aleksishvili  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Van Roy Southworth  
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to 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:

Component 1: Improving the Pedagogical Environment

A. Strengthening the national curriculum and student assessment system.

B. Strengthening the professional development of teachers.

Component 2: Improving the Physical Learning Environment

Improving the physical learning environment, through construction, furnishing and equipping approximately eight schools.

Component 3: Project Management, Monitoring and Evaluation

Institutional support to the MoES (PCU), MDF, NCAC and TPDC related to their Project-related operations, audits and Project monitoring and evaluation.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

1. 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.

2. 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.

3. 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 the 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.

4. 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.

5. The Recipient shall maintain the PCU, the NCAC, the TPDC and MDF 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 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 semester, interim un-audited financial reports for the Project covering the half (1/2) year period, 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.

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:
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) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

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

D. Review by the Association 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.

2. The following table specifies the category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), and the percentage of expenditures to be financed for Eligible Expenditures in the Category:
### Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, works, consultant’s services, Incremental Operating Costs, and Training</td>
<td>10,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>10,200,000</td>
<td></td>
</tr>
</tbody>
</table>

**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.

2. The Closing Date is December 31, 2009.
## 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. “Co-financing Agreement” means the agreement to be entered into by the Recipient and the Association, acting as the administrator of grant funds to be provided by the Co-financier to assist the Recipient in the financing of the Project.

4. “Components 1 and 3 Operational Manual” means the manual adopted by the MoES, setting forth the procedures and rules for Components 1 and 3 implementation, including administrative, environmental, procurement, and financial management activities, and satisfactory to the Association.

5. “Components 2 and 3 Operational Manual” means the manual adopted by the MDF, setting forth the procedures and rules for Components 2 and 3 implementation, including administrative, environmental, procurement (including works supervision), and financial management activities, and satisfactory to the Association.


7. “EMP” means the Environmental Management Plan, included in the Components 2 and 3 Operational Manual, describing the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Association.


9. “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.
10. “MDF” means the Municipal Development Fund of Georgia, a Legal Entity of Public Law, established pursuant to Presidential Decree No. 294 dated June 7, 1997, as amended thereafter.

11. “MoES” means the Ministry of Education and Science of the Recipient, or any successor or successors thereto.

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

13. “NCAC” means the National Curriculum and Assessment Center of the Recipient, a Legal Entity of Public Law, established pursuant to MoES Decree No. 357, dated April 17, 2006, or any successor or successors thereto.

14. “PCU” means the Project Coordination Unit, a Legal Entity of Public Law, established pursuant to Presidential Decree No. 547, dated December 31, 2000, or any successor or successors thereto.


16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated September 28, 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.

17. “TPDC” means the Teacher Professional Development Center of the Recipient, a Legal Entity of Public Law, established pursuant to MoES Decree No. 714, dated July 20, 2006, or any successor or successors thereto.

18. “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.