Financing Agreement

(Third Development Policy Operation)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 15, 2011
FINANCING AGREEMENT

Agreement dated September 15, 2011, entered into between GEORGIA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

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

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

ARTICLE II - 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 an amount equivalent to twenty five million Special Drawing Rights (SDR 25,000,000) (variously, “Credit” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
2.06. The Payment Dates are April 15 and October 15 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is Dollars.

ARTICLE III - PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program and the actions specified in Section I of Schedule 1 to this Agreement;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following namely that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.
5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
ARTICLE VI - REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient’s Address is:

Ministry of Finance
16 Gorgasali Street
Tbilisi 0114
Georgia

Facsimile:
+99532-262422

6.03. The Association’s Address is:

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

Cable address: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
AGREED at Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

By /s/ Dimitri Gvindadze
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Asad Alam
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. The Recipient has submitted to Parliament results-oriented budgets with a new program/subprogram structure and corresponding hierarchy of specific and measurable performance indicators for five ministries and reported on actual performance against the indicators of the prior year.

2. The Recipient has submitted to Parliament a public investment program, including the complete time profile of project financial information, summary project justifications, and physical monitoring indicators covering a majority of public investment, and reported publicly on actual versus planned project implementation for 2010.

3. The Recipient has improved the effectiveness of targeted social assistance (TSA) by: (a) linking the Social Services Agency (SSA) database with government databases for income tax and property in order to review the eligibility status of all beneficiaries; and (b) reinforcing newly linked database through recertification of TSA beneficiaries.

4. The Recipient has protected overall coverage of the Medical Insurance Program (MIP) targeted to the poor at about 900,000 beneficiaries, while improving targeting the poor.

5. The Recipient has strengthened public stewardship of health sector by enforcing internationally recognized coding system and completing data architecture required for harmonized medical claims processing.

6. The Recipient has issued comprehensive procedural guidelines for use by tax officers in providing the entire menu of necessary services to taxpayers, as part of a program to streamline the tax payment system.

7. The Recipient has enhanced the risk-based tax audit system so that all planned on-site tax audits are selected by the system; increased the number of planned on-site audits by at least 50 percent; and reduced the share of control checks to less than 40 percent of total (planned on-site audits plus control checks).

8. The Recipient has further improved the risk management system at customs by increasing the share of declarations passing through the blue corridor above 15...
percent and reducing the share passing through the yellow corridor below 30 percent.

9. The Recipient has amended Law on Food Safety and Quality to enable application of food safety official control on all food business operators as part of reforms in trade-related areas to facilitate access to European and international markets.

10. The Recipient has established monitoring department of GeoStat to ensure more effective implementation of internationally recognized statistical methods and trained all Geostat staff in the use of statistical packages.

Section II. Availability of Financing Proceeds

A. General. 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.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>25,000,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>25,000,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the
Recipient’s budget management system, in a manner acceptable to the Association.

E. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is March 31, 2012.
SCHEDULE 2

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 April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing October 15, 2016 to and including April 15, 2026</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing October 15, 2026 to and including April 15, 2036</td>
<td>3.35%</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

Section I. Definitions

1. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

2. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

3. “GeoStat” means the national statistics office of Georgia as defined by the Law of Georgia on Official Statistics.

4. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated June 9, 2011 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

5. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. “Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

4. Sections 4.01 (Project Execution Generally), and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. Plans; Documents; Records

… (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. Program Monitoring and Evaluation

… (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall
reasonably request, on the execution of the Program, the performance by
the Recipient and the Association of their respective obligations under
the Legal Agreements and the accomplishment of the purposes of the
Financing.”

8. The following terms and definitions set forth in the Appendix are modified or
deleted as follows, and the following new terms and definitions are added in
alphabetical order to the Appendix as follows, with the terms being renumbered
accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as
follows:

“'Eligible Expenditure’ means any use to which the Financing is put in
support of the Program, other than to finance expenditures excluded
pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the
Appendix are deleted in their entirety.

(c) The term “Financing Payment” is modified by inserting the words “the
Interest Charge” between the words “the Service Charge” and “the
Commitment Charge”.

(d) A new term called “Interest Charge” is added to read as follows:

“'Interest Charge’ means the interest charge specified in the Financing
Agreement for the purpose of Section 3.02(b).”

(e) The term “Payment Date” is modified by inserting the words “Interest
Charges” between the words “Service Charges” and “Commitment
Charges”.

(f) The term “Project” is modified to read “Program” and its definition is
modified to read as follows:

“'Program’ means the program referred to in the Financing Agreement in
support of which the Financing is made.” All references to “Project”
throughout these General Conditions are deemed to be references to
“Program”.

(g) The term “Service Charge” is modified by replacing the reference to
Section 3.02 with Section 3.02(a).