CREDIT NUMBER 4062 GE

Development Credit Agreement

(Rural Development Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 28, 2005
CREDIT NUMBER 4062 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 28, 2005, between GEORGIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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 May 1, 2004) (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth:

(a) “ASCDF Advisory Committee” or “FAC” means the advisory committee established pursuant to paragraph 3 of Schedule 4 to this Agreement for the purpose of managing the award of competitive grants under Part A.3 of the Project;

(b) “ASCDF Operational Guidelines” means the guidelines for the agricultural supply chain development fund regarding the competitive grant program under Part A.3 of the Project, as approved by the Ministry of Finance and Ministry of Agriculture and judged satisfactory to the Association;

(c) “Beneficiary” means an individual or legal entity who is either engaged in, or intends to engage in any, agriculture related economic activities in rural areas and to whom a PFI proposes to make or has made a Sub-loan for a Sub-project under Parts B.1 and B.2 of the Project;
(d) “Eligible Categories” means Categories 1 through 5 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(e) “Environmental Guidelines for Rural Credit Operations” means the environmental guidelines for Parts B.1 and B.2 of the Project;

(f) “Euro” means the currency of the European Union;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “LIBOR” means the London Interbank Offered Rate for six-month deposits of Dollars or Euro, calculated based on the average half-year six-month LIBOR;

(i) “Lari” means the currency of the Borrower;

(j) “MOA” means the Borrower’s Ministry of Agriculture;

(k) “MOF” means the Borrower’s Ministry of Finance;

(l) “NBG” means the National Bank of Georgia;

(m) “Non-Bank Financial Institution”, or NBFI, means any micro-finance institution which is not a bank established and operating according to Georgian legislation which meets and continues to meet the Project eligibility criteria set forth in the Rural Credit Guidelines and with which MOF intends to or has entered into a Subsidiary Loan Agreement;

(n) “PCC” means the Agriculture Development Projects’ Coordination Center, established by the Decree of the President of Georgia No. 149 of April 23, 2001 for the purpose of implementation of agriculture projects or any successor thereto designated to carry out the Project;

(o) “PSC” means the Project Steering Committee to be established pursuant to Section 6.01 (b) of this Agreement jointly by a Decree of the MOF and MOA for the purpose of aligning Project activities with government policy and other donor programs;

(p) “Participating Commercial Bank” or “PCB” means a commercial bank, which is established and operating according to the Georgian legislation and regulations of the National Bank of Georgia, which meets and continues to meet the eligibility criteria set forth in the Rural Credit Guidelines, and with which the MOF intends to or has entered into a Subsidiary Loan Agreement;
(q) “Participating Financial Institution” or “PFI” means a Participating Commercial Bank selected for the provision of Sub-Loans under Part B.1 of the Project and a Non-Bank Financial Institution selected for the provision of Sub-loans under Part B.2 of the Project;

(r) “Procurement Plan” means the Borrower’s procurement plan, dated April 1, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(s) “Rural Credit Operational Guidelines” or "RCG" means the compendium of rules and regulations, including its annexes, approved by the MOF and the MOA and judged satisfactory to the Association, which are applicable to the management of the financial resources available under Parts B.1 and B.2 of the Project;

(t) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(u) “Sub-loan” means a loan made or proposed to be made by a PFI to a beneficiary, in accordance with the Subsidiary Loan Agreement and in compliance with the RCG, for the purpose of financing all or a portion of the costs for carrying out of a Sub-project;

(v) “Sub-loan Agreement” means any of the agreements entered into between PFIs and Beneficiaries for the purpose of financing Sub-projects;

(w) “Subsidiary Loan” means the total amount of principal in Dollars, Euro or Lari withdrawn by the PFI in accordance with the terms and conditions of the Subsidiary Loan Agreement, and outstanding from time to time;

(x) “Subsidiary Loan Agreement” means any of the agreements entered into between the MOF on behalf of the Borrower and a PFI, for the purpose of implementing Parts B.1 and B.2 of the Project; and

(y) “Sub-project” means a specific project to be carried out by a Beneficiary utilizing, in whole or in part, the proceeds of a Sub-credit.

**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 six million six hundred thousand Special Drawing Rights (SDR 6,600,000).

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 (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B.3, C, and D of the Project and to be financed out of the proceeds of the Credit, and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by a PFI on account of withdrawals made to a Beneficiary under a Sub-loan to meet the cost of goods and services required for Sub-projects under Parts B.1 and B.2 of the Project.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010 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 February 15 and August 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 February 15 and August 15 commencing August 15, 2015 and ending February 15, 2045. Each installment to and including the installment payable on February 15, 2025 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 with due diligence and efficiency and in conformity with appropriate administrative and financial 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.

(c) For the purpose of carrying out Parts B.1 and B.2 of the Project, the Borrower shall make part of the proceeds of the Credit available to Participating Financial Institutions under Subsidiary Loan Agreements to be entered into between the Borrower and Participating Financial Institutions, under terms and conditions which shall have been approved by the Association to include those set forth in the Annex to Schedule 4 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, services and works 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not
later than 12 months after the date of the preceding Procurement Plan, for the Association’s approval.

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 after 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 shall maintain through the MOA a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall through the MOA:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 statements of expenditure, the Borrower shall:

(i) retain, until at least one year after the Association has received the audit report for, or covering, 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;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Section 7 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(ii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.
ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified:

(i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in paragraph (a) (i) (B) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (a) (ii) of that Section.

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 Borrower has opened the Project Account and has deposited an initial deposit of $50,000 equivalent therein;
(b) the Borrower has established the PSC with adequate representation among its members to enable the PSC to fulfill its mandate in a manner acceptable to the Association; and

(c) all conditions precedent to the effectiveness to the effectiveness of the IFAD Project Financing Agreement for the Project have been fulfilled.

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:

INDEVAS 248423 (MCI) or (202) 477-6391
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 Tbilisi, Georgia, as of the day and year first above written.

GEORGIA

By /s/ Donna Dowsett Coirolo

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Valeri Chechelashvili

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>100,000</td>
<td>80%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>700,000</td>
<td>100% of foreign expenditures, 100% of local expenditure (ex-factory costs) and 80% of local expenditures for other items procured locally</td>
</tr>
<tr>
<td>(3) PCB Sub-loans</td>
<td>4,200,000</td>
<td>90% of loan disbursed by PCBs in year 1 and 80% thereafter</td>
</tr>
<tr>
<td>(4) NBFI Sub-loans</td>
<td>600,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating expenses</td>
<td>300,000</td>
<td>80%</td>
</tr>
<tr>
<td>(6) Unallocated</td>
<td>700,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,600,000</td>
<td></td>
</tr>
</tbody>
</table>

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; and
(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments for expenditures prior to the date of the Agreement; and

(b) expenditures under Categories (2) and (3) of the Project unless such expenditures have been made in accordance with procedures and conditions set forth or referred to in the Annex of Schedule 4 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 under contracts for: (a) goods costing less than $100,000 equivalent per contract; (b) for services of individual consultants costing less than $50,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Borrower; and (d) a Sub-loan.
SCHEDULE 2

Description of the Project

The objective of the Project is to develop the productivity and profitability of the private agriculture sector by facilitating the access of mainly small and medium-scale farmers to supply chains, improving the competitiveness of the supply chains and strengthening the capacity of selected agricultural and financial institutions serving private-sector agricultural market activity.

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: Agricultural Supply Chain Development

1. Assistance in developing strategies for the expansion of profitable sales in domestic and export market, including determining consumer demand, identifying technical, regulatory, institutional, contractual and financial constraints and developing collaborative strategies for their redress and analyzing sources of supply through provision of technical assistance, training and studies in market and supply chain analysis and development.

2. Assistance for farmers and communities through provision of technical assistance, training, study tours, and equipment: (a) to engage in commodity supply chain in an equitable and profitable manner by forming of associations, building of leadership and marketing skill training, support for farmer field days and community meetings; and (b) to raise product quality and quantity for farmer and trader groups, link them to commodity supply chains, in developing business plans and proposals for Sub-loans from PFIs.

3. Assistance to farmers and farmer groups to develop modern and appropriate farm technology, crop and livestock management practices and post harvest technology and demonstration programs through a competitive grant program.

Part B: Rural Finance Services

1. Provision of Sub-loans by PCBs to eligible Beneficiaries for investments in productive purposes in the agricultural sector.

2. Provision of Sub-loans by NBFIs to eligible Beneficiaries for short term investments and working capital in the agricultural sector.
3. Strengthening the capacity of PFIs in the appraisal and management of loan promotion of loan products and collateral instruments, support the development of legal and regulatory framework for NBFIs and develop sustainable credit unions (CUs). Strengthening well managed CUs through provision of technical assistance, training and study tours in savings mobilization, credit administration, financial management, and overall governance.

Part C: Institutional Modernization

1. Assist in the revision of the laws and regulations pertaining to the food, plant variety protection and veterinary topics, establish a Veterinary and Food Department within the MOA, strengthen domestic and border sanitary inspection capacity, strengthen laboratories for accredited food inspection, train staff on international standards, establish testing and certification system, develop a comprehensive, unitary food safety management and risk assessment system and support the Borrower to attain the memberships in international organizations such as the Union for Plant Variety Protection, the European Plant Protection Organization, the International Plant Protection Convention and the International Seed Testing Association.

2. Support for selected commodity specific programs to develop public and private services which are required by commodity chains identified under Part A.1 of the Project but not efficiently available, such as product certification, quality testing and labeling.

3. Assistance to the National Agency for Public Registry through provision of equipment, information technology, technical assistance, training and limited incremental operating costs.

Part D: Project Management

Assistance in project management, monitoring and supervision through the provision of technical assistance, training, studies, audit services, office equipment, vehicles, staff salaries and incremental operating expenses.

* * *

The Project is expected to be completed by December 30, 2009.
SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $600,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods and works estimated to cost less than $100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Commercial Practices. Contracts under Sub-loans and grants may be awarded following commercial practices.
Section III. Particular Methods of Procurement of Consultants’ Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants’ Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

1. For the purpose of overall guidance of the Project coordination, the Borrower shall maintain at all times during execution of the Project the PSC with adequate representation among its members to enable the PSC to fulfill its mandate.

2. For the purpose of Project management, the MOA shall maintain at all times during execution of the Project the PCC or such other entity designated by the MOA and judged satisfactory by the Association which shall be headed by a full time director, whose qualifications and experience shall be satisfactory to the Association, and who shall be assisted by staff, resources, and terms of reference satisfactory to the Association.

3. Not later than three months after Project effectiveness, the Borrower shall establish the ASCDF Advisory Committee in accordance with ASCDF Operational Guidelines and thereafter shall maintain during the execution of the Project for the purpose of managing the award of competitive grants under Part A.3 of the Project with adequate representation.

4. The Borrower shall: (i) carry out Parts B.1 and B2 of the Project in accordance with the Rural Credit Operational Guidelines and the Environmental Guidelines for Rural Credit Operations and Part A.3 of the Project in accordance with the ASCDF Operational Guidelines, agreed upon with the Association and shall not amend such guidelines without the prior written consent of the Association; (ii) require all PFIs to provide Sub-loans in accordance with the Rural Credit Operational Guidelines; and (iii) allow PFIs to set loan conditions according to best commercial practice.

5. The Borrower shall establish and maintain a revolving fund into which all repayment of principal from credits extended to PFIs shall be deposited. The Borrower shall ensure that such revolving fund shall be used to provide rural credit on an ongoing basis in accordance with this Agreement.

6. The Borrower shall maintain the Project Account in a commercial bank on terms and conditions satisfactory to the Association and shall replenish the Project Account quarterly in amounts sufficient as required for the Project during the next quarter.

7. 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 the achievement of the objectives thereof;
(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 30, 2007 a 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 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 achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by July 31, 2007, 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 the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.
ANNEX
to
SCHEDULE 4

I. Eligibility Criteria for PFIs and NBFI

(a) The Borrower shall carry out Parts B.1 and B.2 of the Project through PFIs selected for participation in the Project pursuant to paragraph (b) below.

(b) The Borrower shall select PFIs in accordance with the eligible criteria set forth in the Rural Credit Operational Guidelines.

(c) For the purpose of Part B.1 of the Project, the Borrower shall on-lend the amount of the credit allocated to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to PCBs under subsidiary Loan Agreements to be entered into between the Borrower and each PCB under terms and conditions which shall have been approved by the Association; and

(d) For the purpose of Part B.2 of the Project, the Borrower shall on-lend the amount of the Credit allocated to Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to NBFIIs under subsidiary loan agreements to be entered into between the Borrower and each of the NBFI under terms and conditions which shall have been approved by the Association.

II. Principal Terms and Conditions of Subsidiary Loan Agreements

(a) Subsidiary loan:

(i) Principal amount: to be denominated either in Dollars, Euro or Lari.

(ii) Maturity: maximum of 10 years, including 4 years grace period for PFIs and 2 year grace for NBFIIs.

(iii) Interest:

(A) for Subsidiary loans denominated in Dollars or Euro: LIBOR plus 2 % adjusted semiannually;

(B) for Subsidiary loans denominated in Lari: domestic inflation plus a spread sufficient to cover the Borrower’s commitment fee and service charge, an administrative cost surcharge and a default risk premium; and
(C) for all Subsidiary loans, the interest shall be adjusted semi-annually.

(iv) Foreign exchange risk:

(A) borne by the PFI in the case of Dollar or Euro denominated subsidiary Loans; and

(B) borne by the Borrower in the case of Lari denominated subsidiary loans.

(v) Maximum loan size. The maximum (cumulative) loan to any single PCB be 25% of the PCB’s capital and 50% of the NBFI’s capital, unless otherwise agreed by the Association.

III. General Conditions Applicable to Sub-loan Agreements

(a) Each PFI shall undertake to:

(i) exercise the rights in relation to each Sub-loan in such a manner as to protect the interest of the Borrower and the Association and to accomplish the purposes of the Credit;

(ii) not assign, amend or waive any of its agreements providing for Sub-loans or any provision thereof, without the prior approval by the Association;

(iii) submit any Sub-loan in an amount of $300,000 equivalent or more to the Association for approval, provided, however, that the first three Sub-loans made by each PFI would be approved by the Association irrespective of the amount;

(iv) furnish to the Association: (i) a description of the Beneficiary, including financial information; (ii) information on the appraisal of the sub-project, including a detailed description of the expenditures proposed to be financed out of the proceeds of the credit line; (iii) the proposed terms and conditions of the sub-loan; and (iv) any other information that the PFI considers useful for the review of the sub-project proposal.

(v) Ensure that eligible beneficiaries would include private farmers, producer organizations and private businesses involved in agricultural production, processing, and marketing, operating as joint stock companies, limited liability companies, farmers'
associations, cooperatives, partnerships, or any other legal or natural form. All applicants would need to demonstrate operation in the relevant activity or intention to do so.

(b) The accounts and any additional records to be maintained by the PFIs should be adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Sub-loans financed under the Project.

(c) The PFIs shall ensure the audit of the PFIs financial statements for each fiscal year and their external auditors would furnish a separate auditors’ report on the accounts and records relating to the Project, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such financial year, together with the procedures and internal control involved in their preparation can be relied upon to support the related withdrawals from Credit.

(d) During Sub-project appraisal, PFIs have to ensure that proposed sub-projects are in compliance with all environmental laws and standards of the Borrower, and the Environmental Guidelines of the Rural Credit Guidelines. All relevant documents and permits should be kept in each Beneficiary’s document file maintained by the PFI, and be made available for review by the Association.
SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

   (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

   (c) the term “Authorized Allocation” means an amount equivalent to $1 million to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, 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 be equal to or exceed the equivalent of SDR 1.5 million.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

   (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

      (ii) 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 paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

   (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

   (b) 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 the records and accounts for the Special Account;

   (c) 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 the provisions of Section 6.02 of the General Conditions; or

   (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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.

(d) Refunds to the Association made pursuant to paragraph 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.