Financing Agreement

(Fourth Poverty Reduction Support Operation)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 12, 2008
FINANCING AGREEMENT

Agreement dated June 12, 2008, 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 appropriate macro-economic 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 thirteen million eight hundred thousand Special Drawing Rights (SDR 13,800,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 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 2 to this Agreement.
2.07. 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 progress achieved in carrying out the Program;

(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 exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which 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: 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

5.01. 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:
+99532-457443

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: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391

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

GEORGIA

By /s/ Nikoloz Gilauri
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tamara Sulukhia
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

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

1. The Recipient has achieved satisfactory progress in: (a) improving policy content of its annual budget preparation and execution, including better linking of the MTEF to the budget cycle; (b) developing and implementing of MTEF-based budgetary process; and (c) increasing focus on improved efficiency of public expenditures.

2. The Recipient has: (a) achieved satisfactory progress in the implementation of the accounting reform strategy; and (b) made satisfactory progress in the implementation of LEPLs’ guidelines on financial and performance reporting.

3. The Recipient has: (a) continued achieving satisfactory implementation of the Local Self-Government Units Budget Law No. 3091 1S, dated December 24, 2006 on local government budgets; and (b) finalized the system for monitoring municipal budgeting and financial reporting.

4. The Recipient has completed the stocktaking note on civil service reforms for the period commencing June 2004 and ending June 2007.

5. The Recipient has revised and updated the Action Plan for Anti-Corruption Strategy to reflect the findings of the annual implementation report.

6. The Recipient has: (a) achieved satisfactory implementation of its updated Energy Sector Medium-term Strategic Action Plan, including a review of energy reforms and their impact; and (b) made satisfactory progress in establishing a system for monitoring and reporting of power service to consumers.

7. The Recipient has continued to achieve satisfactory reduction of commercial debt owed by enterprises in the power sector.

8. The Recipient has satisfactorily improved revenue collection administration by establishing the Revenue Service of the Ministry of Finance (including merging of Tax Department, Customs Department and Financial Police) and enhanced revenue services aimed at developing a culture of compliance.

9. The Recipient has satisfactorily taken measures to strengthen the institutional capacity to implement standardized business permit procedures through capacity building, including restructuring of units, staffing, training, and other measures.
10. The Recipient has made satisfactory progress towards adoption of the standardization system in line with the World Trade Organization code in the areas of a number of standards registered in accordance with international practice and/or number of laboratories accredited in accordance with international practice.

11. The Recipient has: (a) satisfactorily continued the implementation of a fiscally sustainable targeted social assistance program; and (b) made satisfactory progress in the collection of data for the monitoring and evaluation of the social assistance program, including planning of the report.

12. The Recipient has achieved satisfactory implementation of the systematic quality assurance arrangements for the entire school system, including: (a) transparent national entrance examinations for higher (university) education; (b) regular cycle of national and international assessments (including analyzing preliminary results of TIMSS and PIRLS and defining remedial actions as needed); and (c) establishment of mechanisms for institutional accreditation and staff certification providing the education community with reliable information about the quality of the system.

13. The Recipient has achieved satisfactory progress in the implementation of its Education Sector Action Plan for further improvement of the per capita financing scheme accommodating the needs of various types of schools and providing for increased accountability and transparency in the education system.

14. The Recipient has extended the implementation of primary health care reform to two additional regions.

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 of SDR 13,800,000 shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:
<table>
<thead>
<tr>
<th></th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Tranche</td>
<td>13,800,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>13,800,000</td>
</tr>
</tbody>
</table>

C. **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.

D. **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.

E. **Closing Date.** The Closing Date is March 31, 2009.
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 February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td><strong>commencing August 15, 2018 to and including February 15, 2028</strong></td>
<td><strong>5%</strong></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>Group</td>
<td>Sub-group</td>
<td>Description of Item</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>---------------------</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 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.

3. “LEPLs” means Legal Entities of Public Law.

4. “MTEF” means the Medium-term Expenditure Framework used to plan and execute the budget of the Recipient.

5. “PIRLS” means the Progress in International Reading Literacy Study.

6. “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 of development policy dated April 14, 2008 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.
7. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

8. “TIMSS” means the Trends in Mathematics and Science Study.

**Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) 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. 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.

4. 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.

5. 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.”

6. 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.

7. 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 “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”.