May 17, 2011

Mr. Gigi Ugulava
Mayor of Tbilisi
Tbilisi City Hall
Tbilisi, Georgia

Re: GEORGIA: IDF Grant for
Tbilisi City Capital Investment Planning and Budgeting Project
IDF Grant No. TF098647

Dear Mr. Ugulava:

In response to the request for financial assistance made on behalf of the Tbilisi City Hall ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank") proposes to extend to the Recipient, for the benefit of Georgia ("Member Country") a grant from the World Bank’s Institutional Development Fund ("IDF") in an amount not to exceed three hundred fifty thousand United States Dollars (U.S.$350,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

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

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned
copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Asad Alam
Regional Director
South Caucasus Country Department
Europe and Central Asia Region

AGREED:
TBILISI CITY HALL

By: /s/ Gigi Ugulava
   Authorized Representative
Name: Gigi Ugulava
Title: Mayor
Date: July 13, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions


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

Article II

Project Execution

2.01.  *Project Objectives and Description.* The objective of the Project is to strengthen the capacity of Tbilisi City in participatory capital investment planning and budgeting. The Project consists of the following parts:

   Part A:  Strengthening Participatory Capital Investment Planning System

   Provision of goods, consultants’ services, training and workshop in building capacity of Tbilisi City to enable it define and apply the methodology and indicators for participatory capital investment planning (CIP) aligned with best international practice.

   Part B:  Fostering Greater Public Awareness and Involvement in the CIP process

   Provision of goods, consultants’ services, training and workshop in facilitating public access to the information underpinning capital investment related decisions in Tbilisi City by developing mechanisms and in-house capacity needed to promote public awareness mechanisms.

2.02.  *Project Execution Generally.* The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through Tbilisi City Economic Policy Agency ("Project Implementing Entity" or "PIE") in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03.  *Institutional and Other Arrangements.* The Recipient shall provide funds for: (i) office facilities; (ii) training facilities; (iii) counterpart staff time; (iv) trainee staff time; and (v) administrative support.

2.04.  *Project Monitoring, Reporting and Evaluation.* (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports,
in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of
the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover
such period as shall be indicated in the World Bank’s request and shall be furnished to the World
Bank not later than one month after the date of such request.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) Capital investment planning and budgeting methodology institutionalized
and applied by December 28, 2012.

(ii) All relevant key staff trained to promote participatory CIP by December

(iii) Specialized website for participatory CIP fully operational by December

(c) The Recipient shall, upon the World Bank’s request, prepare the Completion
Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The
Completion Report shall be furnished to the World Bank not later than five months after the
Closing Date.

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

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

(c) The Recipient shall have its Financial Statements audited in accordance with the
provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements
shall cover the entire period during which withdrawals from the Grant Account were made. The
audited Financial Statements for such period shall be furnished to the World Bank not later than
six months after the end of such period.

2.06. Procurement

(a) General. All goods services required for the Project and to be financed out of the
proceeds of the Grant shall be procured in accordance with the requirements set forth or referred
to in:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement of
Goods, Works and Non-consulting Services under IBRD Loans and IDA
Credits and Grants by World Bank Borrowers” published by the World
Bank in January 2011 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the World Bank in January 2011 (“Consultant Guidelines”) in the case of consultants’ services.

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Non-consulting Services. Goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection; (F) Selection of Individual Consultants; and (G) Sole Source Procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (i) the first contract to be awarded in accordance with each procurement method; (ii) each contract for goods or non-consulting services estimated to cost the equivalent of $100,000 or more; and (iii) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table
specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods and non-consulting services</td>
<td>71,500</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Service</td>
<td>252,160</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training and Workshops</td>
<td>26,340</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>350,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Training” means expenditures incurred in connection with the Project-related study tours, training courses, seminars, workshops and other training activities, including travel and per diem costs of trainees and trainers.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

   (a) for payments made prior to the date of countersignature of this Agreement by the Recipient; or

   (b) prior to developing and introducing a simplified Financial Management Manual (FMM), which describes the project implementation financial management arrangements (i.e., budgeting, accounting, financial reporting, funds flow, auditing and internal controls) acceptable to the World Bank.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the date of countersignature of this Agreement by the Recipient.

**Article IV**

Recipient’s Representative; Addresses

4.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Mayor of Tbilisi.

4.02. Recipient’s Address. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:
Tbilisi City Hall
7 Shartava Street
Tbilisi,
Georgia

Facsimile:
995-32-378-189

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391

Washington, D.C.