
LOAN NUMBER 2655-GEO(SF)

LOAN AGREEMENT
(Special Operations)

(Sustainable Urban Transport Investment Program, Project 1)

between

GEORGIA

and

ASIAN DEVELOPMENT BANK

DATED 5 AUGUST 2010

LAS:GEO 42414

LOAN AGREEMENT (Special Operations)

LOAN AGREEMENT dated 5 August 2010 between GEORGIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a framework financing agreement dated 21 June 2010 ("FFA") between the Borrower and ADB, ADB has agreed to provide a multitranche financing facility ("Facility") to the Borrower for purposes of financing projects and subprojects under the Sustainable Urban Transport Investment Program (the Investment Program);

(B) by a periodic financing request dated 21 June 2010 submitted by the Borrower, the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement ("Project"); and

(C) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Project;

(D) the Project will be carried out and implemented by the Municipal Development Fund of Georgia established under Presidential Decree No. 294 dated 7 June 1997 ("MDF"); and

(E) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and MDF;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Charter" means the charter of MDF approved by Government Decree No. 118 dated 23 July 2005 as amended from time to time;

(b) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);

(c) "Consulting Services" means the services to be financed out of the proceeds of the Loan as described in paragraphs 2(b) and 2(c) of Schedule 1 to this Loan Agreement, but excluding any services provided in relation to Goods and Works;

(d) "EARF" means the Environmental Assessment and Review Framework for the Facility, as agreed between the Borrower and ADB, as amended from time to time;

(e) "FAM" means the facility administration manual for the Facility, as agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of MDF and ADB for application to the Project;

(f) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(g) "LARF" means the Land Acquisition and Resettlement Framework for the Facility, as agreed between the Borrower and ADB, as amended from time to time;

(h) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2007, as amended from time to time);

(i) "PFR" means a periodic financing request submitted or to be submitted by the Borrower, for the purposes of each tranche under the Facility, and for the purpose of this Loan Agreement means the periodic financing request dated 21 June 2010;

(j) "Procurement Guidelines" means ADB's Procurement Guidelines (2010, as amended from time to time);

(k) "Procurement Plan" means the procurement plan for the Project dated 9 June 2010 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(l) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means MDF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(m) "Subproject" means a specific development project or subproject that is provided in paragraph 2(a) in Schedule 1 to this Loan Agreement; and

(n) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to fifty-seven million nine hundred eighty-six thousand Special Drawing Rights (SDR57,986,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall make the proceeds of the Loan available to MDF upon terms and conditions satisfactory to ADB and shall cause MDF to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure or cause to be procured items of expenditure in accordance with the applicable provisions of Schedule 4 to this Loan Agreement.

Section 3.04 Withdrawals from the Loan Account in respect of the Goods, Works and Consulting Services shall be made only on account of expenditures relating to:

- (a) Goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) Goods, Works and Consulting Services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2016 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.03. (a) The Borrower shall cause MDF to (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 8 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss MDF's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by MDF pursuant to subparagraph (a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of MDF unless MDF shall otherwise agree.

Section 4.04. The Borrower shall take all actions which shall be necessary on its part to enable MDF to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

ARTICLE V

Effectiveness

Section 5.01. A date 60 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Delegation of Authority

Section 6.01. The Borrower hereby designates MDF as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.03 of this Loan Agreement and under Sections 5.01, 5.02 and 5.03 of the Loan Regulations.

Section 6.02. Any action taken or any agreement entered into by MDF pursuant to the authority conferred under Section 6.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 6.03. The authority conferred on MDF under Section 6.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VII

Miscellaneous

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

External Relations Department
Ministry of Finance
16 Gorgasali Street, 0114
Tbilisi, Georgia

Facsimile Number:

(99532) 261 461.

For ADB

Asian Development Bank
6 ADB Avenue, Mandaluyong city
1550 Metro Manila, Philippines

Facsimile Numbers:

(632) 636-2444

(632) 636-2301.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

GEORGIA

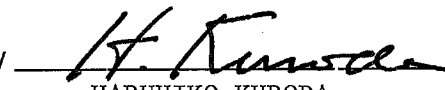
By



KAKHA BAINDURASHVILI
Minister of Finance

ASIAN DEVELOPMENT BANK

By



HARUHIKO KURODA
President

SCHEDULE 1

Description of the Project

1. The Project will provide efficient, reliable and affordable urban transport infrastructure and services, thereby increasing economic growth potential and competitiveness of urban communities, improving livelihoods of over 1.5 million people (approx. 35% of Georgian population). The Project will also: (i) improve urban, environment and communities' access to economic opportunities and to public and social services; (ii) promote efficient and sustainable urban transportation; and (iii) generate income and employment opportunities.

2. The Project shall comprise the following main components:
 - (a) Urban Transport Infrastructure Improvement, including the following Subprojects:
 - (i) Tbilisi urban environment improvement and Gorgasali road reconstruction;
 - (ii) Tbilisi metro extension (Vazha Pshavela avenue);
 - (iii) Kutaisi urban renewal and non-motorized transport facilities development; and
 - (iv) Road improvements in Mestia.
 - (b) Institutional Capacity Development to strengthen organization, increase coordination, monitoring and financing of urban transport subsector; and
 - (c) Project Management Facility and consulting services for Subproject preparation, construction supervision, audit, social and environmental assessments, and institutional capacity development in the urban transport subsector.

3. The Project is expected to be completed by 30 June 2016.

SCHEDULE 2**Amortization Schedule****(Sustainable Urban Transport Investment Program, Project 1)**

Period	Date Payment Due	Payment of Principal (expressed in SDR)*
1	15 October 2018	1,208,042
2	15 April 2019	1,208,042
3	15 October 2019	1,208,042
4	15 April 2020	1,208,042
5	15 October 2020	1,208,042
6	15 April 2021	1,208,042
7	15 October 2021	1,208,042
8	15 April 2022	1,208,042
9	15 October 2022	1,208,042
10	15 April 2023	1,208,042
11	15 October 2023	1,208,042
12	15 April 2024	1,208,042
13	15 October 2024	1,208,042
14	15 April 2025	1,208,042
15	15 October 2025	1,208,042
16	15 April 2026	1,208,042
17	15 October 2026	1,208,042
18	15 April 2027	1,208,042
19	15 October 2027	1,208,042
20	15 April 2028	1,208,042
21	15 October 2028	1,208,042
22	15 April 2029	1,208,042
23	15 October 2029	1,208,042
24	15 April 2030	1,208,042
25	15 October 2030	1,208,042
26	15 April 2031	1,208,042
27	15 October 2031	1,208,042
28	15 April 2032	1,208,042
29	15 October 2032	1,208,042
30	15 April 2033	1,208,042

Period	Date Payment Due	Payment of Principal (expressed in SDR)*
31	15 October 2033	1,208,042
32	15 April 2034	1,208,042
33	15 October 2034	1,208,042
34	15 April 2035	1,208,042
35	15 October 2035	1,208,042
36	15 April 2036	1,208,042
37	15 October 2036	1,208,042
38	15 April 2037	1,208,042
39	15 October 2037	1,208,042
40	15 April 2038	1,208,042
41	15 October 2038	1,208,042
42	15 April 2039	1,208,042
43	15 October 2039	1,208,042
44	15 April 2040	1,208,042
45	15 October 2040	1,208,042
46	15 April 2041	1,208,042
47	15 October 2041	1,208,042
48	15 April 2042	1,208,026
	TOTAL	57,986,000

* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, each item of expenditure shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 3 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Imprest Account and Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account at the Treasury Service of the Ministry of Finance of the Borrower. The imprest account shall be established, managed,

replenished and liquidated in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be the Dollar. The ceiling for the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first 6 months of Project implementation, or (ii) the equivalent of 10% of the Loan amount, unless otherwise agreed by ADB.

(b) The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed shall not exceed the equivalent of \$100,000, unless otherwise agreed by ADB.

Retroactive Financing

7. Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with the Works, Goods and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Sustainable Urban Transport Investment Program, Project 1)			
CATEGORY			ADB FINANCING
Number	Item	Total Amount Allocated for ADB Financing (SDR)	Percentage and Basis for Withdrawal from the Loan Account
1	Works and Goods	45,024,000	100 percent of total expenditure*
2	Consulting Services and Incremental Administration	6,515,000	100 percent of total expenditure*
3	Interest	1,228,000	100 percent of amounts due
4	Unallocated	5,219,000	
	TOTAL	57,986,000	

* Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4

Procurement of Goods, Works and Consulting Services

General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Procurement of Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The methods of procurement or threshold values may only be modified with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

Consulting Services

5. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall ensure that MDF applies quality- and cost-based selection for selecting and engaging the Consulting Services.
6. The MDF may apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:
 - (a) Consultant Qualification Selection for incremental project administration, monitoring and evaluation, and institutional capacity development; and
 - (b) Least-Cost Selection for auditing.
7. The Borrower shall ensure that MDF recruits the individual consultants for capacity development consultancy in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

8. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether

separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

9. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

ADB's Review of Procurement Decisions

10. Contracts procured under International Competitive Bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

Procurement from Non-member Countries

11. Notwithstanding the provisions of Section 3.04(a) of this Loan Agreement, Goods, such as metro signaling equipment and its components, that are procured for the Project from non-member countries of ADB may be financed from the proceeds of the Loan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Implementation Arrangements

1. The Borrower shall designate MDF as the Project Executing Agency with responsibility for overall Project implementation and for liaison with ADB and other government agencies. The Borrower and MDF shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the FAM. Any subsequent change to the FAM shall become effective only after approval of such change by the MDF and ADB. In the event of any discrepancy between the FAM and this Loan Agreement and/or the Project Agreement, the provisions of this Loan Agreement and/or the Project Agreement shall prevail.

Environment

2. The Borrower, through MDF, shall ensure that potential adverse environmental impacts arising from the Project are minimized by implementing all the mitigation measures presented in the environmental impact assessment ("EIA") or Initial Environmental Examination ("IEE"), as applicable, and environmental management plan ("EMP"). The Borrower will also ensure that the design, construction, and operation of the Project are in accordance with ADB's *Safeguards Policy Statement* (2009), the EARF and the Borrower's environmental laws and regulations. The Borrower shall cause MDF to ensure that (i) during construction, the contractor has primary responsibility for implementing the mitigation measures and EMP measures and the MDF will have access to sufficient resources to ensure that all environmental management provisions are included in the contract; (ii) the MDF will monitor and record the implementation of the EMP prepared for the Project; (iii) the MDF prepares semiannual environmental reports and submits to ADB, within 3 months of the end of each half of the calendar year, from the start of project implementation and until completion of the Project. The report will include, among other things, a review of progress made on environmental measures detailed in the EIA/IEE and EMP, and problems encountered and remedial measures taken. The Borrower, through MDF, shall further ensure that detailed engineering designs, civil works, and other contracts for the Project facilities incorporate applicable environmental measures identified in the EIA/IEE and EMP.

Land Acquisition and Resettlement

3. No land acquisition and resettlement activities are expected for the Project, and the Borrower shall ensure that MDF implements the Project within the boundaries of its existing land allotments and rights-of-way or on otherwise state-owned land duly allocated for such purpose. If, however, Project implementation will require land acquisition and resettlement, then the Borrower shall ensure that MDF promptly prepares a resettlement plan ("RP") acceptable to ADB pursuant to the agreed LARF, applicable laws and regulations of the Borrower, and ADB's *Safeguards Policy Statement* (2009), and carries out such activities promptly and efficiently in accordance with such approved RP.

Health and Labor Standards

4. The Borrower shall cause MDF to ensure that contractors engaged under the Project/Subproject (i) comply with all applicable labor laws; (ii) use their best efforts to employ women and local people, including disadvantaged people, living in the vicinity of the Project; (iii) provide equal pay to men and women for work of equal type; (iv) provide and adequately equip first-aid, health and sanitation, and personal hygiene facilities for male and female workers at the Project/Subproject site; (v) maximize female training and employment; (vi) conduct an information and education campaign on sexually transmitted diseases and HIV/AIDS for construction workers as part of the health and safety program at campsites and adjacent communities during Project/Subproject implementation; and (vii) abstain from child labor. Relevant contracts financed under the Project must include specific clauses on these undertakings.

Gender and Development

5. The Borrower shall cause MDF to ensure that within 6 months of the Effective Date, the Project-related community and gender action plan is agreed with ADB, and that it is implemented in a timely manner over the Project period.

Counterpart Support

6. The Borrower shall ensure that the counterpart funding is promptly provided for purposes of successful Project implementation.

7. The Borrower shall cause MDF to establish, adequately staff and equip a project management unit in a manner acceptable to ADB.

Governance and Corruption

8. The Borrower shall cause MDF to have the Project-related accounts annually audited in accordance with international standards by an independent auditor acceptable to ADB.

9. The Borrower shall comply with ADB's *Anticorruption Policy* (1998, as amended to date) for the purposes of the Project. The Borrower, consistent with its commitment to good governance, accountability and transparency, agrees (a) that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project and (b) to cooperate fully with any such investigation and to extend all necessary assistance. The Borrower shall ensure that all contracts financed by ADB under the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the MDF and all contractors, suppliers, consultants, and other service providers as they relate to the Project or Subproject.

Operational covenants

10. The Borrower shall cause MDF to ensure that (i) the Subprojects are implemented in accordance with design specifications and construction norms; and (ii) construction supervision, quality control and contract management are performed in accordance with international standards.

11. The Borrower shall ensure that the relevant municipalities or authorities install appropriate safety signs and facilities during implementation and ensure monitoring of the accident rate and traffic volume.

12. The Borrower and MDF shall ensure that ADB's consent is obtained at least 6 months prior to the implementation of any of the following: (i) any change in ownership of any asset, facility or structure financed under the Project; (ii) any sale, transfer, or assignment of interest or control in any asset, facility or structure financed under the Project; (iii) revision, amendment or restatement of MDF's Charter that may affect implementation or management of the Project; or (iv) any lease or other contract or modification of the functions and authority of MDF over operation and maintenance of any such asset, facility or structure financed under the Project. The Borrower shall ensure that any such changes will be carried out in a legal and transparent manner.