

Public Disclosure Authorized

OFFICIAL DOCUMENTS

LOAN NUMBER 8742-GE

Loan Agreement

(Second Programmatic Inclusive Growth Development Policy Operation)

between

GEORGIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated

May 03, 2017

LOAN NUMBER 8742- GE

LOAN AGREEMENT

Agreement dated May 03, 2017, entered into between GEORGIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank 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 — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of forty-seven million and two hundred thousand Euros (€47,200,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on

such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section II of Schedule 1 to this Agreement.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.

6.02. The Borrower's Address is:

Ministry of Finance
16 Gorgasali Street
Tbilisi 0114
Georgia

6.03. The Bank's Address is:

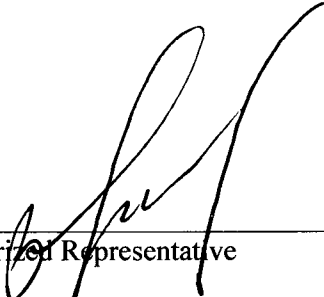
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

AGREED at TBILISI, GEORGIA, as of the day and year first above written.

GEORGIA

By




Authorized Representative

Name: DEMITRY KUMSHVILI

Title: MINISTER OF FINANCE

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By



Authorized Representative

Name: MERCY TEMBIN

Title: REGIONAL DIRECTOR

SCHEDULE 1**Program Actions; Availability of Loan Proceeds****Section I. Actions under the Program****Pillar I: Strengthen Fiscal Oversight of Public Institutions, and Improve Budgeting and the Framework for Civil Service Reform**

1. The Borrower, through its Ministry of Finance, has established the framework for pre-selection, appraisal, selection, budgeting, implementation and evaluation for public investment projects costing more than an agreed threshold, as evidenced by the Borrower's Government Decree No. 191 dated April 22, 2016 as published in the Legislative Herald No. 010240020.10.003.019256 dated April 26, 2016.
2. The Borrower, through its Ministry of Finance and its Ministry of Economy and Sustainable Development, has established a financial database covering over 95 percent of the total turnover of SOEs, as evidenced by the Borrower's letter No. 09-02/40383 dated March 22, 2017.
3. The Borrower, through its Ministry of Finance, has included the SOE fiscal risk assessment report in the Borrower's annual budget as evidenced by the Borrower's Report "Analysis of Macroeconomic Risks in the Fiscal Sector for 2016-2020" published in the following website: <http://mof.ge/images/File/biujetis-kanoni2017/damtkicebuli/SFR-2016-Total-bind.pdf>.

Pillar II: Improve the Coverage and Quality of Social Services and Strengthen Monitoring of Outcomes

4. The Borrower, through its Ministry of Labor, Health and Social Affairs, has launched the implementation of enhanced obstetric and neonatal care in all its territory, as evidenced by the Borrower's Minister of Labor, Health and Social Affairs' Order No. 01-10/N dated March 4, 2016, amending Order No. 01-2 dated January 15, 2015, as published on the following website: http://old.moh.gov.ge/index.php?lang_id=GEO&sec_id=753.
5. The Borrower, through its Parliament, has adopted and published the new Law on Early and Preschool Education (Law No. 5366-IIb dated June 8, 2016 published in the Borrower's Legislative Herald No. 430040000.05.001.018169 dated June 24, 2016).
6. The Borrower, through its Parliament, has adopted the amendments to the Law on Official Statistics to ensure that the national population census is conducted at least every ten years, as evidenced by the Borrower's Law No. 5500-IIS dated June 22, 2016, published in the Legislative Herald No. 45 dated June 29, 2016

7. The Borrower has: (i) decided to: (a) conduct a separate labor force survey with a larger sample size and higher frequency of reporting as evidenced through GeoStat Protocol No. 13 adopted by GeoStat Board Meeting of December 30, 2015; (b) carry out a revised framework for the household budget survey with improved sampling design; and (c) establish the framework for the labor force survey including the new sampling design, both as evidenced by GeoStat Protocol No. 6 adopted by GeoStat Board Meeting of December 6, 2016; and (ii) completed the collection of data for the first month under the labor force survey using the new framework, as evidenced by GeoStat's Executive Director Letter No 8-635 dated March 7, 2017.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Euros)
(1) Single Withdrawal Tranche	47,082,000
(2) Front-end Fee	118,000
(3) Amount due pursuant to Section 2.08(c) of this Agreement]	
TOTAL AMOUNT	47,200,000

- C. Withdrawal Tranche Release Conditions**
1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied (a) with the Program being carried out by the Borrower, and (b) with the adequacy of the Borrower's macroeconomic policy framework.
- D. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

- E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is March 31, 2018.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date[, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.]

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15 Beginning October 15, 2031 through October 15, 2041	4.55%
On April 15, 2042	4.45%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date[, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.]
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as

withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

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 Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (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 Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (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 Borrower or international agreements to which the Borrower 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 Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other Borrower of the Loan proceeds, without the Borrower (or other such Borrower) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
2. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
 3. “GeoStat” means the National Statistics Office of Georgia, the Borrower’s national statistics office as created and operating under the Borrower’s Law No. 2291 dated December 11, 2009.
 4. “Program” means: (a) the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated March 25, 2017 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution, as well as or including: (b) the actions set forth in Section I of Schedule 1 to this Agreement.
 5. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
 6. “SOEs” means the Borrower’s state owned enterprises as defined and operating under the Borrower’s Laws No. 577 dated October 28, 1994 and No. 4522 dated April 8, 2011.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

9. In the Appendix, **Definitions**, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.
10. The Appendix is modified by inserting a new paragraph 19 with the following definition of “Commitment Charge”, and renumbering the remaining paragraphs accordingly:
 - “19. “Commitment Charge” means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b).”
11. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Eligible Expenditure”) is modified to read as follows:
 - “37. “Eligible Expenditure” means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”
12. Renumbered paragraph 44 (originally paragraph 43) of the Appendix (“Financial Statements”) is deleted in its entirety.
13. In paragraph 48 of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
14. In paragraph 67 of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:
 - “67. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”
15. In paragraph 72 of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.
16. The defined term “Project” in paragraph 75 of the Appendix is modified to read “Program” and its definition is modified to read as follows (and all references to

“Project” throughout these General Conditions are deemed to be references to “Program”):

“75. “Program” means the program referred to in the Loan Agreement in support of which the Loan is made.”