

**FRAMEWORK FINANCING AGREEMENT
(GEO: Road Corridor Investment Program)**

Parties	This Framework Financing Agreement ("FFA") dated 29 August 2009 is between Georgia and Asian Development Bank ("ADB").
MFF Investment Program	<p>Georgia is committed to and will implement the upgrading of its road network, including subregional road corridors, in line with the national road development roadmap and with the Joint Needs Assessment (the Program). The Program and the Roadmap are described in Schedule 1 hereto.</p> <p>The total cost of the Program, over the period 2009 to 2015 is expected to be \$3 billion equivalent.</p>
Multitranche Financing Facility	<p>The Multitranche Financing Facility (MFF or the Facility) is intended to finance projects under the Program, provided that such projects comply with the criteria set out in Schedule 4 hereto and that understandings set forth in this FFA are complied with.</p> <p>The projects under the Facility may include: (i) construction, upgrading, and rehabilitation of roads within Georgia's national boundaries; (ii) construction and rehabilitation of road facilities, including vehicle weighing and cross-border infrastructure; (iii) strengthening of institutional capacity of executing and implementing agencies; (iv) initiatives to further road safety; and (v) public private partnership initiatives and studies in the road sector.</p>
This Framework Financing Agreement	<p>This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Georgia, cancel the uncommitted portion of the Facility, and withdraw Georgia's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.</p> <p>This FFA does not constitute a legal obligation on the part of Georgia to request any financing. Georgia has the right not to request any financing under the Facility. Georgia also has the right at any time to cancel at no cost any uncommitted portion of the Facility.</p> <p>Georgia and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.</p>
	<p><i>Financing Plan</i></p> <p>The indicative financing plan for the Program for the period 2009-2015 is summarized below. Details are set forth in Schedule 1 to this FFA.</p>

	Source	Total (\$ million)	%
	Investment Program		
	Asian Development Bank	500.0	17
	World Bank/JICA/MCC	622.0	21
	Government and other sources	1,823.0	62
	Total	2,945.0	100
	Project 1		
	Asian Development Bank		
	Special Funds Resources	118.8	79.8
	Government	30.1	20.2
	Total	148.9	100
	JICA = Japan International Cooperation Agency, MCC = Millennium Challenge Corporation		
	Source: Asian Development Bank estimates.		
Financing Terms	<p>ADB will provide loans and may administer cofinancing from other donors to finance projects and components under the Program, as and when the latter are ready for financing, provided that Georgia is in compliance with the understandings hereunder, and the components, projects, and subprojects are in line with those same understandings. Each loan and such ADB-administered cofinancing will constitute a tranche under the Facility.</p> <p>Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing as of the date of signing the legal agreement for such tranche. Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other. There is no maximum or minimum size for a tranche.</p> <p>Commitment charges or guarantee fees are not payable on the Facility. They are payable, as and when appropriate, only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreement is signed for a tranche, will apply with respect to such tranche.</p>		
	Amount		
	<p>The maximum ADB financing amount available under the Facility is five hundred million dollars (\$500,000,000). It will be provided in individual tranches from ADB's ordinary capital resources¹ and Special Funds resources.² The terms and conditions of each loan will be determined in the context of each tranche and will follow prevailing ADB policies.</p>		

¹ Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each such Loan, subject, to modifications, if any, that may be included under any Loan Agreement.

² Provisions of the Special Operation Loan Regulations applicable to Loans Made by ADB from its Special Funds Resources, dated 1 January 2006, would apply to each such Loan, subject, to modifications, if any, that may be included under any Loan Agreement.

	<p>Availability Period</p> <p>The last date on which any disbursement under any tranche of this Facility may be made will be December 2016. The last financing tranche is expected to be executed no later than December 2013.</p> <p>Terms and Conditions</p> <p>Georgia will cause the proceeds of each tranche to be applied to the financing of expenditures of the Program, in accordance with conditions set forth in this FFA and the loan agreements for each tranche.</p> <p>The loan proceeds under the Facility will be used to finance road sector projects, for which eligibility and approval criteria are set out in Schedule 4 to this FFA.</p>
Execution	<p>The Executing Agency for the Road Corridor Investment Program will be Georgia's Ministry of Regional Development and Infrastructure (MORDI). The Roads Department (RD) will function as the Implementing Agency. Other government agencies may also be Implementing Agencies, as appropriate to their respective function. The Executing Agency will implement the Program in accordance with the principles set forth in Schedule 1 to this Agreement, as supplemented with more details in the loan agreements for each tranche.</p>
Periodic Financing Requests	<p>Georgia may request, and ADB may agree, to provide loans under the Facility to finance the Program and its related projects upon the submission of a Periodic Financing Request (PFR). ADB will review the PFRs and, if found satisfactory, prepare the related loan agreements.</p> <p>The projects for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks and other documents. ADB and the Executing Agency will agree on a Facility Administration Manual and a schedule to initiate these activities, as soon as possible after the date of this Agreement, but prior to the effective date of the legal agreements for the first tranche.</p> <p>Until notice is otherwise given by the Government of Georgia, the Ministry of Finance (MOF) will be Georgia's authorized representative for purposes of executing and submitting PFRs.</p>
General Implementation Framework	<p>The Facility will be implemented in accordance with the general framework and implementation arrangements set out in Schedule 3 hereto.</p>
Procedures	<p>Tranches to be provided under the Facility will be subject to the following procedures and undertakings:</p> <ul style="list-style-type: none"> (i) MOF will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.

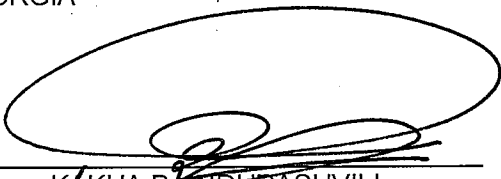
	<ul style="list-style-type: none"> (ii) MOF will have submitted a PFR in the format agreed with ADB. (iii) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche. (iv) If ADB confirms such acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.
PFR Information	<p>The PFR will substantially be in the form attached hereto, and will contain the following details:</p> <ul style="list-style-type: none"> (i) Loan, grant, guarantee, or co-financing amount; (ii) Description of projects/components to be financed; (iii) Cost estimates and financing plan; (iv) Implementation arrangements specific to the projects; (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement; (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s); and (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.
Safeguards	<p>Attached in Schedule 5 are the Safeguards Frameworks that will be complied with during the implementation of the Facility.</p> <p>ADB Safeguard Policies, namely: (i) the Involuntary Resettlement Policy (1995), (ii) the Environment Policy (2002), and (iii) the Indigenous Peoples Policy (1998) or (iv) the Safeguard Policy Statement (2009), as applicable and as amended from time to time, will be applied with respect to the projects financed under a financing tranche.</p>
Procurement	<p>All goods and works to be financed under the Facility will be procured in accordance with ADB's <i>Procurement Guidelines</i> (2007, as amended from time to time).</p>
Advance Contracting and Retroactive Financing	<p>Under each tranche, ADB may, subject to its policies and procedures, allow on request (a) advance contracting for detailed design, construction supervision and works and (b) retroactive financing of eligible expenditures up to 20% of proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. Georgia acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance such incurred costs or the related project.</p>
Consulting Services	<p>All consulting services to be financed under the Facility will be procured in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time).</p>
Disbursement	<p>Disbursements will be made in accordance with ADB's <i>Loan Disbursement Handbook</i> (2007, as amended from time to time).</p>

	In projects where land acquisition and involuntary resettlement are required, no loan proceeds shall be disbursed for civil works until (i) the Government has allocated adequate funds for land acquisition, and (ii) land and rights-of-way required for the civil works are free and clear from any and all rights or claims of third parties and any other encumbrances whatsoever.
Monitoring, Evaluation, and Reporting Arrangements	Within 3 months of the effective date of the loan agreement for every tranche under the Facility, RD will establish a Project Performance Management System (PPMS) in a form and substance acceptable to ADB, in accordance with project performance indicators agreed between ADB and RD. The Design and Monitoring Framework for the Facility is set forth in Schedule 2 hereto. RD will undertake periodic project performance review under each individual loan, as well as for the Program, in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project and overall Program. RD will prepare and submit to ADB quarterly progress reports for the individual project under the Facility. The reports will include a description of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date, and include a report on progress of the implementation of mitigation measures as specified in relevant contracts and environmental management plans (EMP). A project completion report will be submitted within three months following completion of each project. A Facility completion report will be submitted within 3 months after completion of the Facility.
Undertakings	Schedule 6 hereto sets out the undertakings provided by Georgia in relation to the Facility.

GEORGIA

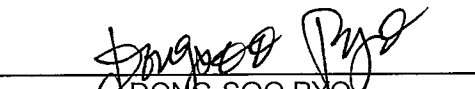
ASIAN DEVELOPMENT BANK

By



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Minister of Finance

By



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SCHEDULE 1

MFF CONSTITUENTS

A. Sector Challenges

1. Like other sectors in Georgia, the road sector has been transformed from a centrally planned to a market-oriented system since independence. The sector faces four major development challenges: (i) inadequate capacity and technical standard of the road network, including sub-regional corridors, (ii) road maintenance funding issues associated with maintenance backlog on secondary and local roads, (iii) unsatisfactory road safety record, and (iv) limited institutional capacity to deliver an expanded road program.

2. **Road Network Infrastructure.** Georgia's road network is crucial in facilitating regional transport and trade. The East–West Highway forms part of the Asian highway network³ connecting Georgia and Turkey to Azerbaijan and Central Asia. Georgia is a signatory to a number of international transport agreements and conventions. Continued development of an integrated and efficient road transport network (main, secondary and local roads, border infrastructure) will facilitate cross-border and transit traffic, will foster income and employment generation within the country and will contribute to regional cooperation and integration. The existing road network does not adequately cater for the current needs of the economy and of the sub-region and many roads remain in poor condition. Adequate secondary and local road maintenance funding is subject to budget affordability. A large part of the network deteriorated since the beginning of the 1990s until 2003, resulting in higher transport costs and in traffic accidents, thus constituting an impediment to growth and poverty reduction. The road sector needs to be developed to facilitate regional and domestic trade, investment and tourism.

3. **Road Maintenance Funding.** Until 2004, a road fund existed, financed from the proceeds of the fuel tax, the international transit tax and a road usage tax levied on individuals and enterprises. In 2004, the Government abolished special funds, including the road fund, and since then the sector has been funded directly from the state budget, including through donor funds. The proceeds of the transport related taxes and fees are nowadays part of the general revenue and are not earmarked specifically for road maintenance. Under the proposed RD maintenance program for 2009-2013, an increase in annual funding from \$110 million to \$137 million is planned, with most of the increase earmarked for the periodic maintenance program. In 2007, the responsibility for local roads was transferred from RD to 69 local authorities, as part of broader public sector reform aimed at decentralizing government functions. An estimated GEL1,450 million is needed to rehabilitate the local road system (90% in poor condition) and bring it up to a maintainable condition. Rehabilitated local roads would then require an estimated GEL1,500-4,000 per km annually for routine and winter maintenance. Despite the growing need for road maintenance, how to fund it remains a challenge. Donors closely coordinate to assist RD in effectively coping with the challenge. For example, the World Bank is supporting RD in improving the efficiency of its road maintenance activities by shifting from contracted-out maintenance to performance-based maintenance contracts. The Program will also support introduction of the performance-based maintenance contract and assist RD in carrying out this task.

4. **Road Safety.** Road safety concerns stem from the rise in the number of traffic accidents, fatalities and injuries. The current fatality rate is about 10 times that in European countries, causing economic and human losses. While this can be attributed to a number of

³ The concept of the Asian highway network was developed with assistance of the United Nations Economic and Social Commission for Asia and the Pacific. Twenty-seven Asian countries including Georgia have signed the Intergovernmental Agreement on the Asian Highway Network.

factors, inadequacy of the road network is one of them. Curves and super-elevation tend to be sometimes inappropriately designed, and safety furniture tends to be lacking. Other causes of accidents include, inter alia, weak enforcement of safety regulations, reckless driving and increased vehicle fleet. Accidents are unlikely to decrease unless remedial action is undertaken. Both fatalities and serious injuries show an upward trend and road-safety is thus a serious social issue. With the rapid expansion of vehicle fleet, road traffic accidents may increase in the future, unless remedial action is undertaken. Road safety should be improved through road network development and increased public safety awareness. The Government developed the National Traffic Safety Strategy in 2008 and makes an effort to strengthen law enforcement and public campaign for road safety. Donor agencies seek to support the Government in this effort.

5. **Institutional Capacity.** Despite recent progress on policy and institutional reforms, institutional capacity in the road sector remains limited. This is reflected by (i) relatively weak enforcement of some existing regulations such as those relating to vehicle axle-load controls and road safety; (ii) lack of experience and knowledge about private-public partnership in road construction and maintenance; and (iii) limited staff experience in management of road projects. The World Bank has continuously supported necessary institutional strengthening, and further external assistance is needed to help RD in implementing the planned large-scale investment program.

B. Strategic Context

6. Georgia serves as the shortest transit link in the region, including between Central Asia and Europe. The physical location of Georgia ensures that it is a key transport link on the most direct route between the Black Sea and the Caspian Sea and the Central Asian countries. It is also situated on the historic Silk Road, which is now realized as the Transport Corridor Europe-Caucasus-Asia route. Recognizing the strategic importance of a transit route connecting Central Asia and the Caspian Sea to Europe, the Government has accorded top priority rehabilitating and upgrading the East-West Highway to an international standard. Development of regional road-corridors and their interconnectedness through improved national, secondary and local roads network and border infrastructure will help exploit Georgia's locational advantage as a regional transit hub while also contributing to the better economic, trade and logistical integration within Georgia. Structured along these lines, the efficiently functioning road network will diversify the connectivity of Georgia to neighboring countries and reduce the cost of regional and international transport, benefiting both the local economy and the economy of the region, thereby stimulating the development of Europe-Asia trade links. The regional road corridors also serve as principal domestic corridors linking major cities, ports and tourist centers. Their development thus enhances economic growth through more efficient passenger and freight transport.

C. Policy Framework

7. The Government transport sector policy is to develop the infrastructure and institutional setting of the sector to support market integration and to maximize the country's potential as a transit economy. Government's strategy for implementation of the policy includes: (i) establishment of the legal and regulatory framework for the private sector to participate in regional network building and maintenance; (ii) capacity development of road sector institutions for efficient road management; (iii) provision of sufficient resources, financial and technical, for local authorities to properly discharge their increased responsibility to manage road assets; and (iv) concessioning of construction and operation of main road network to the private sector. The sector roadmap was developed in line with this policy framework.

D. Investment Plan and Sector Roadmap

8. In 2008, the Government endorsed the Joint Needs Assessment (JNA) prepared by the United Nations together with the World Bank, ADB, the European Bank for Reconstruction and Development, the European Commission, the European Investment Bank, and the International Finance Corporation. JNA recognized the immediate need to upgrade Georgia's road networks and identified priority investment programs, noting that limited transport infrastructure added to the cost of doing business, deterred foreign investment, added time and costs to the transit corridor, and left large segments of the population out of mainstream economic activities. JNA also emphasized the necessity of regional multi-road-corridors to ensure provision of more efficient and secure transit routes. JNA set the basis for donors' assistance programming and cooperation. In 2009, RD updated road transport infrastructure development needs reflected in the JNA and identified the investment component that will construct, upgrade, and rehabilitate approximately 1,900 km of roads, comprising main, alternative, and secondary road networks. The non-investment component of the Program will focus on priority reforms, including the development of regulations and operational procedures; encouragement of private sector participation in construction and maintenance; and capacity building for planning, monitoring, evaluation, and reporting. The overall investment may reach approximately \$3 billion over the 7-year period. Most of this will be financed from development aid agencies' assistance along with the Government's budget. The Government has also sought external financing, with ADB, the World Bank, Millennium Challenge Corporation (MCC), and Japan International Cooperation Agency (JICA) as the main sources. The investment plan is in Table 3.1 and sector roadmap is in Table 3.2.

Table 3.1: Investment Plan

Road	Length (km)	Estimated Cost (\$ million)	(Potential) Financier	Status^a	Year^b
Main Road Network					
Tsiteli Khidi (Red Bridge)- Rustavi	38	135			2014
Rustavi-Tbilisi Widening	17	70			2011
Tbilisi Bypass Realignment	7	15			2010
Igoeti-Sveneti	25	58	World Bank	Under construction	2008
Sveneti-Ruisi	15	135	World Bank	Under bidding	2009
Ruisi-Rikoti	48	300		Feasibility study	2012
Rikoti Tunnel rehabilitation	2	30	World Bank	Detailed design	2009
Rikoti Tunnel duplication	2	40			2013
Rikoti-Zestaponi	50	450		Feasibility study	2013
Zestaponi-Kutaisi-Samtredia	70	180	JICA	Tendering for detailed design	2010
Samtredia-Grigoleti-Choloki	50	190		Feasibility study	2011
Ajara Bypass Roads	48	248	ADB	Tendering for detailed design	2010
Subtotal	372	1,851			
Alternative Network					
Vaziani-Gombori-Telavi	66	35	World Bank	Under bidding for construction	2009
Teleti-Armenian Border and Akhalkalaki-Turkish Border	212	184	MCC	Under construction	2008
Tbilisi-Marneuli Widening	27	95		Feasibility study	2013
Tbilisi-Sagarejo Widening	35	120		Feasibility study	2012
Khaishi-Mestia	65	60		Detailed design completed	
Batumi-Akhaltzikhe (Keda- Adigeni section)	65	100		Feasibility study	
Subtotal	470	594			
Secondary and Local Network	1,000	500			
Total	1,842	2,945			

JICA = Japan International Cooperation Agency, MCC = Millennium Challenge Corporation

^a As of August 2009.

^b Planned commencement of construction.

Table 3.2: Road Sector Roadmap, 2009-2015⁴

Objective	Impact	Performance Target	Measurement	Responsible Party
Development of road network	An efficient, affordable network meeting the needs of Georgia and the region	Road development plan developed and endorsed by 2011 Completion of 50% of Investment Plan by 2015		RD
Improvement of road maintenance	Road network in sustainable surface condition	Poor surface condition of main roads under RD reduced from 20% in 2008 to under 10% by 2015	Pavement condition surveys	RD
		More than 20% of local roads improved to better than "poor" category by 2015	Pavement condition surveys	Local authorities assisted by RD surveys
		Performance-based maintenance contracted on a pilot basis 2011 and general application from 2015.	Contractor contracts	RD
		Road maintenance budget increase no less than overall national budget increase 2010-2015	Road maintenance budget allocations	MORDI/MOF
Improvement of road safety	Road accidents reduced	Annual growth rate of road accidents reduced to 5% by 2015	Number of road traffic accidents, fatalities, and injuries	RD, Traffic Patrol Police, Ministry of Interior
		Fatality rate decreased to 10 per 10,000 vehicles by 2015	Road accident monitoring, reporting and information systems	
		Road safety features including safety audit incorporated in all main road improvement works by 2015	ADB Mission reporting	
Strengthening RD's institutional capacity	Road network management improved	Manual on tunnel and bridge engineering developed by 2011	RD report	RD
		Manual on environmental and resettlement safeguard developed by 2011		

⁴ Performance targets and dates in table 3.2 represent expectations and/or reasonable approximations as of the date of this Framework Financing Agreement and are subject to affordability constraints and to mutually-agreed revisions and refinements in the process of implementation of activities envisaged under the Facility.

	PPP contract management enhanced	Legal and regulatory framework for tolling roads drafted by 2013 Manual on performance-based management contract developed by 2011	Draft legislation RD report	MORDI
	Enhanced capacity for vehicle axle-load control	Patrol police in the East-West Highway equipped with portable weighing equipment by 2014	RD report	RD

ADB = Asian Development Bank, km = kilometer, PPP = public private partnership, RD = Roads Department.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY⁵

Design Summary	Performance Targets / Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased sub-regional trade</p>	<p>Increase in sub-regional trade by 4% per annum for 5 years after completion of the 1st tranche project</p> <p>30% increase in cross-border freight traffic by 2015 from 1.0 million ton in 2008</p>	<p>National trade statistics</p>	<p>Assumptions</p> <ul style="list-style-type: none"> ▪ Continued government commitment to regional cooperation ▪ Positive trend in regional growth and economic integration <p>Risks</p> <ul style="list-style-type: none"> ▪ Political and macroeconomic instability in Georgia and the sub-region
<p>Outcome Improved sub-regional road network</p>	<p>Reduced freight charges per ton-km in Georgia by 10% from 2009 to 2015</p> <p>Increased share of sub-regional roads in good and fair condition from 80% in 2008 to 90% in 2015</p> <p>Increased funding for road maintenance from \$32 million in 2009 to \$52 million in 2013</p> <p>Decrease in road accident rate from 1.3 per million vehicle-km⁶ on the existing road to 0.68 on the Ajara bypass road in 2014.</p>	<p>RD surveys</p> <p>Georgian International Road Carriers Association surveys</p> <p>Road sector budget and expenditure records</p>	<p>Assumptions</p> <ul style="list-style-type: none"> ▪ Government's commitment to implement the Roadmap and the Program ▪ Adequate counterpart financing <p>Risks</p> <ul style="list-style-type: none"> ▪ Limited budget for road maintenance ▪ Malfunctioning of market mechanisms

⁵ Entries in the table below represent expectations and/or reasonable approximations as of the date of this Framework Financing Agreement and are subject to affordability constraints and mutually-agreed revisions and refinements in the process of implementation of activities envisaged under the Facility.

⁶ Source: ADB study.

Design Summary	Performance Targets / Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>Improvement of about 120-200 km of the Sub-regional Road Corridors</p> <p>Asset management capacity of the Road Department strengthened</p> <p>Road safety improved</p>	<p>IRI value for the improved roads maintained at no higher than 3.0 within 5 years after project completion</p> <p>Implementation of performance-based maintenance contracts</p> <p>Annual growth rate of road accidents reduced to 5% by 2015</p>	<p>RD surveys</p>	<p>Assumptions</p> <ul style="list-style-type: none"> ▪ Support from local government and communities ▪ Disputes among contractors, supervision consultants and RD avoided or promptly resolved <p>Risks</p> <ul style="list-style-type: none"> ▪ Delays in preparation and implementation of subsequent projects ▪ Cost overruns caused by unexpected increases in prices of fuel and raw materials
<p>Activities with Milestones</p> <ol style="list-style-type: none"> 1. Financing Framework Agreement signed by the Government and ADB by 30 August 2009. 2. Periodic Financing Request for the 1st tranche project submitted by the Government and approved by ADB by 7 September 2009. 3. Periodic Financing Request for the 2nd tranche project submitted by the Government and approved by ADB in January 2010. 4. Feasibility study for the 3rd tranche project completed by December 2010. 			<p>Inputs</p> <p>Investment Program</p> <ul style="list-style-type: none"> ▪ ADB: \$500 million ▪ Georgia and other external financiers: \$2,445 million

ADB = Asian Development Bank, GEL = Georgian Lari, IRI = international roughness index, km = kilometer, MFF = multitranche financing facility, RD = Roads Department.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

Project Executing Agencies

1. MORDI shall be the Executing Agency for the Facility as described in Schedule 1 to this FFA, and shall be assisted by RD (or another appropriate government agency(ies)), as Implementing Agency, responsible for daily management of the projects.

Foreign Project Unit

2. The Foreign Project Unit (FPU) in RD will handle all project implementation activities under the supervision and guidance of the chairman or vice-chairman. FPU will be comprised of technical staff assigned from within RD and engaged from outside, as appropriate. The activities related to financial management will be outsourced to Eurasian Transport Corridor Investment Center (ETCIC). The FPU will also (i) prepare new PFRs under the Facility, (ii) engage supervision consultants and contractors, (iii) prepare reports, and (iv) obtain approval from ADB. The Program will support the FPU to engage external experts, particularly tunnel and bridge engineering, safeguards, and procurement specialists.

Project Auditing

3. RD shall maintain, in relation to activities under the Facility, separate project records and accounts adequate to identify the goods and services financed from the loan proceeds, financing resources received, expenditures incurred for the project, and use of local funds. These project accounts will be audited annually in accordance with sound auditing standards by an independent auditor acceptable to ADB. RD shall submit annual audited reports to ADB within six months after the end of each fiscal year during implementation of the Facility. The audit of the imprest account and statement of expenditure will be carried out as part of the regular annual audit. The auditor's opinion of the examination of the imprest account and statement of expenditure should be separately set out in the auditor's report.

4. ADB may conduct a performance audit for each project under the Facility pursuant to the terms of reference to be developed by ADB.

Project Review

5. ADB, MORDI, RD, MOED and MOF shall meet regularly as required to discuss the progress of the individual tranche and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the objectives of the tranche's project and of the Program as a whole.

6. A midterm review of each project financed under the Facility will be undertaken by ADB and Georgia. The midterm review will include review of issues and any problems or weaknesses in implementation arrangements, institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, financial, and other relevant aspects that may have an impact on the performance of the Facility, its tranches, or individual projects thereunder, and their continuing viability. The review shall also examine progress in resettlement, environment, poverty impact, and compliance with assurances in this FFA and agree on any changes needed to achieve the objectives of the Facility.

7. A similar midterm review of the Program by ADB and Georgia will be undertaken in the third year from the date of approval of the Facility by ADB.

Governance and Anticorruption

8. MORDI and RD shall follow ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB, consistent with its commitment to good governance, accountability and transparency, reserves the right to undertake directly, or through its agents, investigation of any alleged corrupt, fraudulent, collusive or coercive practices related to the project/subproject and cooperate with such investigation and extend all necessary assistance including access to all relevant books and records, and engaging independent experts who may be needed for satisfactory completion of such investigations. RD shall ensure implementation of the following measures: (i) anticorruption provisions acceptable to ADB shall be included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the project/subproject of the Facility; and (ii) the supervision consultant shall verify the contractors' invoices in accordance with working drawings and contract specifications. RD agrees to take, if necessary, additional measures to improve governance, accountability, and transparency, including (i) independent external auditing of contracts, accounts, and financial statements; (ii) timely disclosure of information on selection of consultants and contractors through website.

Monitoring and Evaluation

9. RD shall, with the assistance of supervision consultants, monitor and evaluate project impacts to ensure that the project facilities are managed effectively and the project benefits maximized. RD shall ensure that supervision consultants collect the data agreed with ADB at the inception and project completion.

10. Within three months after the effective date of a loan agreement for every tranche under the Facility, RD will set a Project Performance Management System (PPMS) in a form and substance acceptable to ADB, in accordance with the Road Corridor Investment Program and project performance indicators. The Design and Monitoring Framework for the Facility is set forth at Schedule 2 hereto. RD will undertake periodic project performance review under each individual loan in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project and of the overall Investment Plan.

11. RD shall prepare and submit to ADB quarterly progress reports for the individual project under the Facility. The reports will include a description of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date, and include a report on progress of the implementation of mitigation measures as specified in the contracts and EMP and measures to ensure environmentally responsible procurement.

12. A project completion report will be submitted to ADB within three months following completion of each project. A Facility completion report will be submitted to ADB within three months following completion of the Facility. The completion reports shall cover a detailed evaluation of the projects financed under the Facility and of the Facility as a whole, covering the design, costs, contractors' and consultants' performance, social, environmental and economic impact, and other details for each project and the Facility as may be requested by ADB.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS UNDER THE FACILITY

1. Unless parties agree otherwise, ADB will only finance projects that (i) are part of the Investment Program for Roads Development in Georgia and the Investment Plan described in Schedule 1 to this FFA, (ii) adhere to the implementation arrangements set forth in Schedule 3 to this FFA; (iii) fully comply with the social dimensions and safeguard frameworks set forth in Schedule 5 to this FFA; and (iv) meet the eligibility requirements set forth in this Schedule 4.

A. Selection Criteria

2. To be financed under the Facility, each proposed project or subproject shall:
- (i) construct, upgrade, or rehabilitate roads of high development priority, assessed from their contribution to implementation of the Joint Needs Assessment and to achieving the objectives of the road sector roadmap;
 - (ii) meet the engineering, financial, economic, environmental, and social requirements of Georgia and ADB;
 - (iii) have been allocated counterpart funding sufficient to implement the project or subproject as scheduled and to maintain such project/subproject facilities upon completion; and
 - (iv) have been granted government approvals and endorsements.

B. Approval Procedures

3. Approval procedures for projects proposed for financing under the Facility will follow the required government review and approval processes as supplemented by the requirements of RD attached to Schedule 5 to this FFA.

4. For the project proposed for financing under Tranche I of this Facility, all necessary approvals have been obtained as of the date of this FFA.

5. For all projects intended for financing under subsequent tranches of the Facility, the approval procedures will be as follows:

- (i) RD will review project proposals to confirm compliance with eligibility criteria and then submit those eligible projects or subproject proposals to MORDI for endorsement.
- (ii) RD will prepare a PFR in a format agreed with ADB to finance specific projects, and submit it to MORDI for review and approval. Upon interministerial consultation and approval, the PFR together with eligible project or subproject proposals will be submitted to ADB.
- (iii) MORDI, RD, MOF and ADB will maintain contact through periodic ADB review missions and quarterly progress reports, and in so doing will consult on PFRs prior to their submission to ADB.

(iv) Subject to satisfactory compliance with the selection criteria and approval procedures, and in compliance with ADB's relevant policies, ADB will approve the proposals of the projects.

SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARDS REQUIREMENTS

1. Georgia will ensure that all the requirements prescribed in this Schedule and the following safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche, and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the projects financed under the Facility:

- (i) environmental assessment and review framework (EARF),
- (ii) land acquisition and resettlement framework (LARF), and
- (iii) environmental management plan (EMP) and land acquisition and resettlement plan (LARP) for the first tranche.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the MFF on the environment, involuntary resettlement, and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components, projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each Safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's (i) Involuntary Resettlement Policy (1995), (ii) Indigenous Peoples Policy (1998), and (iii) Environment Policy (2002) or (iv) Safeguard Policy Statement (2009), if applicable, (collectively referred to as the "Safeguard Policies"), as amended from time to time.

4. In all cases, for each new PFR preparation, RD will review ongoing projects under the Facility to check on the status of compliance with the safeguards plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the projects included in the tranche being processed. In any case if major noncompliance is discovered in the course of the review of ongoing subprojects, a corrective action plan will be prepared and submitted to ADB.

5. In addition, all ADB Safeguards Policies in effect as of the date the financing of a project is prepared or provided under the Facility will apply to such project. In the event there is a discrepancy between the laws and regulations of Georgia and ADB's Safeguards Policies, then ADB's Safeguards Policies shall be applied.

Environment

6. RD shall ensure that each project and all facilities financed under the Facility are developed, conducted, implemented and maintained in accordance with all applicable laws and regulations of Georgia and ADB's Environment Policy (2002) and Environmental Assessment Guidelines (2003).

7. RD shall ensure that a relevant environmental impact assessment (EIA) or initial environmental examination (IEE) (as applicable) is prepared for each project financed under the Facility in accordance with all applicable laws of Georgia and ADB's Environment Policy, and that all EIA/IEEs are approved by ADB and Georgia's Ministry of Natural Resources and Environment Protection and are adhered to during design, construction and operation phases of such projects.

8. RD shall ensure that the EMP is implemented. All recommendations of the EMP are incorporated in the bidding documents, civil works contracts and consultant's contracts to ensure compliance.

9. RD shall: (i) monitor the implementation of EMPs by the contractor; (ii) ensure that civil works and consulting services contracts include specific provisions for EMPs' preparation, implementation and monitoring, (iii) ensure that mitigation measures in EMPs are adequately implemented by the contractors, and (iv) provide adequate budgetary allocation for this activity. RD shall also ensure timely submission of semi-annual monitoring reports on EMPs implementation to ADB on a project during project implementation.

10. No civil works contract shall be awarded until the corresponding initial environmental examination or environmental impact assessment as may be applicable to project financed under the Facility has been approved by ADB.

Land Acquisition and Resettlement

11. RD shall ensure that land and rights-of-way required by the projects are made available free and clear from any and all rights and claims of third parties and any other encumbrances whatsoever in a timely manner and that the provisions of the LARPs are implemented in conformity with (i) all applicable laws and regulations of Georgia, (ii) ADB's Involuntary Resettlement Policy (1995), and the agreed LARF.

- (i) LARF shall be reviewed, if necessary updated, and submitted for ADB approval at least annually and at the beginning of the preparation of each tranche under the Facility. An LARP consistent with the reviewed and updated LARF shall be prepared for each project proposed for financing under the Facility.
- (ii) Preparation of LARF for the Facility and preparation of an LARP for project 1 consistent with the LARF shall be a condition for such Facility and tranche 1 appraisal.
- (iii) The review and update of LARF and preparation of an LARP for each subsequent project consistent with the LARF shall be a condition for such project appraisal.
- (iv) Preparation of an updated LARP for each project based on the final design and consistent with the LARF shall be a condition for approval of the award of relevant civil works contract(s).
- (v) Completion of the implementation of the LARP shall be a condition for the commencement of civil works. RD shall incorporate this condition in the civil works contract(s).

12. Pursuant to ADB's Involuntary Resettlement Policy (1995) the following shall be required:

- (i) compensation shall be provided at replacement cost together with any entitlements as stipulated in the approved LARF and LARP;
- (ii) lack of formal title will not be a bar to resettlement assistance or rehabilitation for land or any other loss;

- (iii) counterpart funds and disbursements shall be timely provided to affected persons, with agreed compensation and rehabilitation provided to them prior to any land, house or other affected asset being taken;
- (iv) Georgia shall meet any unforeseen obligations in excess of budget estimates;
- (v) consultations and grievances related to the investment project's resettlement activities shall be documented;
- (vi) LARPs shall be updated if an investment project is modified such that there are different or additional resettlement impacts; and resettlement activities shall be reported to ADB as part of the quarterly progress reports by RD.

13. RD, shall ensure that within 3 months of the effective date of the loan agreement under relevant tranche, the RD engages an independent expert, acceptable to ADB, to conduct independent external monitoring and evaluation of the resettlement process and impacts. Reports of the independent monitoring expert will be submitted to ADB on a quarterly basis.

14. No civil works contract shall be awarded until an LARP as may be applicable to the project financed under the Facility has been approved by ADB.

15. Contractors may only commence civil works after the LARP has been implemented in accordance with its terms.

Social Impacts, Gender Development and Other Issues

16. RD shall ensure a monitoring of the social impacts throughout implementation of the Facility, in consultation with local governments, local communities, and nongovernment organizations. In this respect, RD shall ensure that all civil works contractors (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/subproject financed under the Facility, (iii) disseminate information at worksites on health safety for those employed during construction, (iv) provide equal pay to men and women for work of equal type, (v) provide safe working conditions and separate culturally appropriate facilities for male and female workers, and (vi) abstain from child labor. Contracts for all projects/subprojects to be financed under the Facility must include specific clauses on these undertakings, and compliance will be strictly monitored during Road Corridor Investment Program implementation.

17. RD shall develop, as appropriate, the gender action plan (GAP) within six (6) months of the Effective Date of each Tranche, and ensure that it is timely implemented over the Project period. RD shall monitor GAP implementation and report the progress to ADB semiannually.

SCHEDULE 6

UNDERTAKINGS

In addition to such undertakings as ADB will reasonably require in legal agreements for individual tranches under the Facility, Georgia undertakes to use its best efforts to ensure that:

A. Sector Specific Undertakings

1. A long-term road sector development plan is prepared and adopted for implementation by 31 December 2010. Such plan will provide policy actions and measures to: (i) update the system for efficient planning and prioritization of road maintenance works; (ii) develop or adopt adequate road maintenance standards; and (iii) provide training to strengthen the capacity of RD.
2. ADB is kept informed of Georgia's policies and programs related to the road sector that will materially affect the economic viability of each project, subproject, or component financed under the Facility.
3. Actual annual expenditures for road maintenance (including emergency maintenance, but excluding rehabilitation and new construction) for roads within RD's jurisdiction are increased at least at the same rate as increases in the overall national budget during 2010–2015.
4. RD will enter into a pilot performance-based maintenance contract with a private sector entity by 2011.
5. The project roads under the Program are rehabilitated or constructed in accordance with the technical specifications of the design; and construction supervision, quality control and contract management are performed in accordance with internationally acceptable standards.
6. RD installs appropriate road safety signs and facilities during the project implementation and after completion, such as warning signs, pavement markings, road signs and signals, and hazard barriers, all in compliance with appropriate international conventions that Georgia is a signatory to and best industry practices. RD will ensure monitoring of the accident rate and traffic volume after commencement of the operation of the roads financed under the Facility and institute appropriate safety enforcement measures.

B. Fiduciary Oversight

7. Independent auditor shall conduct audits of project accounts, and corrective or preventive action will be taken to prevent misallocation of resources.

C. Quality

8. The works, goods, and services procured for each project will be monitored continuously and evaluated periodically so that the designs, professional conduct, and outputs, as the case may be, are in accordance with the relevant national, regional, and international standards, criteria, best practices, and agreements, and are in compliance with ADB's policies.