



As agreed during the
Inception Mission
(10-17 December 2008)

Project Administration Memorandum

Project Number: 41198
December 2008

Georgia: Municipal Services Development Project

This Project administration manual (PAM) is an active document, progressively updated and revised as necessary, particularly following any changes in project costs, scope, or implementation arrangements. This PAM shall be read along with the Report and Recommendations of the President, Loan and Project Agreements and relevant ADB publications. This PAM incorporates agreements reached between CWSS and Executing Agency as of 12 December 2008. In case of discrepancy, the Loan and Project Agreements shall prevail.

Asian Development Bank

Project Administration Manual

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Annex 1: Project Definition

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1.1 Sponsors and Stakeholders

- (i) **Sponsors:**
 - Ministry of Finance (MOF) of Georgia
 - Municipal Development Fund (MDF) of Georgia
 - Asian Development Bank (ADB)
- (ii) **Stakeholders:**
 - Municipal Governments
 - Central Government

1.2 Impact and Outcomes

- (i) **Impact:**
 - Improved municipal environment and public health in Georgia.
- (ii) **Outcome:**
 - Improved municipal infrastructure and service delivery.

1.3 Outputs

The Project comprises two components: an investment projects financing facility, and a project management and capacity development.

The proposed outputs are:

Investment Projects Financing Facility

- increased quality, coverage, and reliability of water supply, sanitation, and solid-waste management, improved roads, and other municipal infrastructure.

Project Management and Capacity-development

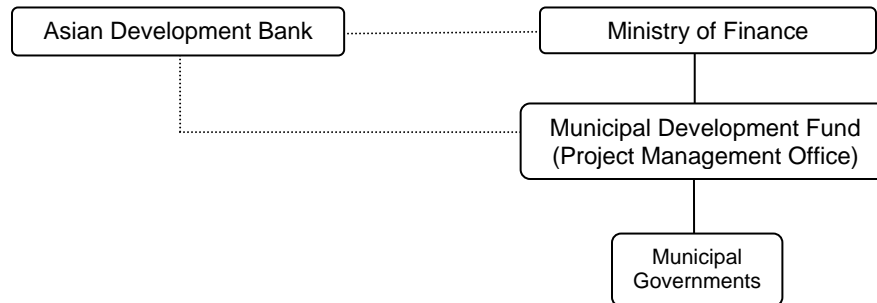
- improved capacity of municipal governments to prepare and appraise feasibility, engineering design, environmental, social, and other related studies;
 - improved capacity in project management at municipal level;
 - strengthened corporate and business planning processes within MDF
 - improved capacity of MDF for studies and training.
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Annex 2: Project Management

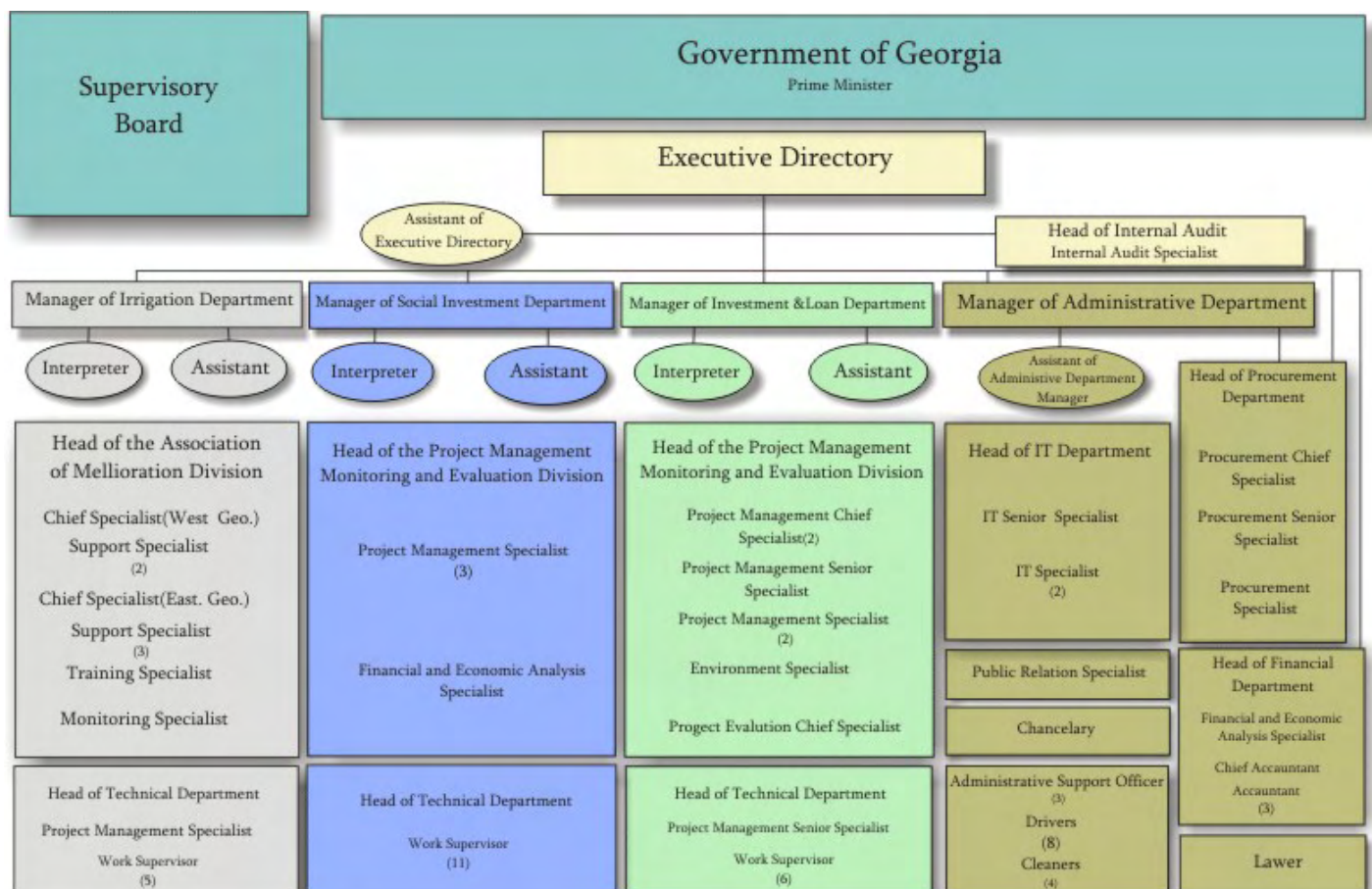
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2.1 Project Management Organization

(i) Project Organization Structure



(ii) Project Management Office – Organization Chart



Annex 2: Project Management

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2.2 Roles and Responsibilities

(i) Strategic and Management Level

- Supervisory Board – Responsible for the coordination and overall management of its activities
- Executive Director – Overseas day-to-day operations of project management office

(ii) Operational Level

- Social Investment Department:
 - Manage, on behalf of the MDF, the Regional and Municipal Infrastructure Development Project, the Municipal Services Development Project, and other social infrastructure projects.
 - Carry-out preparation of investment projects for MDF clients, process corresponding applications, and manage project implementation.
 - Process corresponding grant applications.
- Investment and Loans Department:
 - Manage, on behalf of MDF, the Municipal Services Development Project, Regional and Municipal Infrastructure Development Project, and other infrastructure projects.
 - Manage the MDF loan portfolio.
 - Carry-out preparation of investment projects for MDF clients.
 - Process corresponding loan applications.
- Administration Department:
 - Carry-out all financial management activities of MDF in accordance with Georgian law and regulations, and donors' requirements.
 - Provide the required IT services to the other departments.
 - On behalf of MDF clients, carry-out procurement for investment projects and technical assistance programs in accordance with the donors' procurement guidelines.
 - Provide internal and external legal services.
 - Provide technical and logistical support required for efficient operation function of MDF

(iii) Municipal Government Level

- Prepare and submit a project proposal to MDF.
- Provide necessary information, statistics, and project data during various studies including feasibility of the subproject.
- Provide necessary inputs such as logistics during project implementation.
- Join commissioning of the project facilities after completion of the project facilities.
- Operate and maintain the project facilities in accordance with the operations manual of the project facilities prepared.

Annex 2: Project Management

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2.3 Selection Criteria for Municipal Governments and Subprojects - Refer to Project Agreement paragraph 3 of the Schedule. Details are in **Appendix 1.**

2.4 Investment Project Preparation and Appraisal – Refer to Schedule of the Project Agreement. Details are in **Appendix 2.**

Annex 3: Procurement Plan

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3.1 Process Thresholds and Reviews - Refer to the RRP, paragraphs 56 to 60.

- A. Project Procurement Thresholds** - Except as ADB otherwise agrees, the process thresholds shown in Table 1 will apply to procurement of goods and works.

Table 1: Process Thresholds for Procurement of Goods and Works

Method	Threshold
ICB for Works	> \$1,000,000
ICB for Goods	> \$500,000
NCB for Works	< = \$1,000,000 > \$100,000
NCB for Goods	< = \$500,000 > \$100,000
Shopping for Works	< = \$100,000
Shopping for Goods	< = \$100,000
Direct Contracting for Works	< = \$10,000
Direct Contracting for Goods	< = \$10,000

ICB = international competitive bidding, NCB = national competitive bidding.

- B. ADB Prior or Post Review** - Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project (Tables 2 and 3).

Table 2: Prior or Post Review Requirements for Procurement of Goods and Works

Procurement Method	Prior or Post	Comments
ICB Works	Prior	
ICB Goods	Prior	
NCB Works NCB Goods	Prior/Post	Usage subject to review of the borrower's public procurement laws and regulations. Prior review applies to the procurement of the first NCB contract by the PMU. If first contract procured satisfactorily, thereafter post review.
Shopping for Works	Post	
Shopping for Goods	Post	
Direct Contracting for Works	Post	
Direct Contracting for Goods	Post	

ICB = international competitive bidding, NCB = national competitive bidding, PMU = project management unit.

Annex 3: Procurement Plan

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Table 3: Prior or Post Review Requirements for Consultant Recruitment

Procurement Method	Prior or Post	Comments
A. Recruitment of Consulting Firms		
Quality- and Cost-Based Selection (QCBS)	Prior	QCBS based on 80:20 quality-cost weighting, applied in accordance with Section 2.2-2.22, <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time)
Other selection methods: Quality-Based Selection, Consultants Qualifications Section, Least Cost Selection, Fixed Budget Selection, and Single Source Section	Prior	
B. Recruitment of Individual Consultants		
Individual Consultants	Prior	Applied in accordance with Section 2.34, <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time)

C. Goods and Works Contracts

Table 4: Goods and Works Contracts

General Description	Contract Value ^a (\$ million)	Procurement Method	Prequalification of Bidders (Y/N)	Advertisement Date	Comments
Goods and Services	8.61	NCB/Shopping/Direct Contracting	N	3rd quarter 2008 – 4th quarter 2012	Multiple Contracts
Civil Works	48.80	ICB/NCB/Shopping/Direct contracting	Y for ICB and N for the others	3rd quarter 2008 – 4th quarter 2012	Multiple Contracts

ICB = international competitive bidding, NCB = national competitive bidding

^a Contract value includes total cost estimates including ADB and non-ADB financing.

Annex 3: Procurement Plan

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D. Consulting Services Contracts

Table 5: Consulting Services Contracts

General Description	Contract Value^a (\$ million)	Recruitment Method	Advertisement Date	International or National Assignment	Comments
Subprojects Feasibility Studies	3.27	QCBS/QBS/CQS/ LCS/FBS/SSS	3 rd quarter 2008 – 4 th quarter 2012	International/ national	Firms, multiple contracts

CQS = consultants qualifications section, FBS = fixed budget selection, LCS = least-cost selection, QBS = quality-based selection, QCBS = quality- and cost-based selection, SSS = single source selection.

^a Contract value includes total cost estimates including ADB and non-ADB financing.

E. National Competitive Bidding Annex - This has been posted in the ADB website:
<http://coso.asiandevbank.org/modules/tinycontent4/index.php?id=10>

Note: ADB's *Guidelines for Procurement* require the use of appropriate Standard Bidding Document (SBD) issued by ADB for the procurement of ADB-financed civil works, goods and related services. These SBDs and other procurement documents are posted in the internet <http://www.adb.org/Procurement/prequalification-bid-documents.asp>.

3.2 Project Procurement Plan

- Refer to **Appendix 3** for the detailed Project procurement plan.

Annex 4: Financing Plan

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4.1 Funds Flow – Refer to **Appendix 4**.

A. ADB to MOF

ADF loan – 32 years including 8 years grace period, interest rate 1.5% pa, 1.0% during grace period

B. MOF to MDF

ADB loan proceeds released as a grant for investment, incremental administration and capacity development

C. MDF to Municipal Government (MG)

For the investment subprojects, the financing arrangements are as follows:

➤ **Window 1: financially strong MGs**

- Local government = 20%
- MDF (through Loan) = 50% — ADB 40% and MDF 60%
- MDF (through Grant) = 30% — ADB
- 100%

➤ **Window 2: financially weak MGs**

- Local government = 15%
- MDF (through Grant) = 85% — ADB
- 100%

For the capacity development, 80 % grant funding will be provided.

For the incremental administration, 85% grant funding will be provided.

4.2 Financing Windows Requirements— Refer to Project Agreement Schedule.

Window 1:

- Total cost of a subproject shall not be below \$500,000 equivalent in current prices.
- Each sub-loan shall be on the terms and conditions described in Section 2.03 of the Project Agreement.
- Each MG shall finance at least 20% of the estimated cost of the subproject.
- Each MG shall transfer the requested amount in Lari from its total contribution specified in Project Agreement paragraph 4(c) into a designated account of MDF, within 15 days upon notice from MDF.

Window 2:

- Total cost of a subproject shall not be below \$100,000 equivalent and shall not exceed \$1,000,000 equivalent in current prices; pooling of smaller but related and contiguous subprojects may be allowed to meet the minimum investment requirement.
 - Each MG shall finance at least 15% of the estimated cost of the subproject.
 - Each MG shall transfer the requested amount in Lari from its total contribution specified in paragraph 5 (b) above into a designated account of MDF, within 15 days upon notice from MDF.
-

Annex 4: Financing Plan

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4.3 ADB Financing and Disbursement Arrangements - The loan proceeds will be disbursed in accordance with *ADB's Loan Disbursement Handbook* (2007, as amended from time to time), and subject to the provisions of Schedule 3 of the Loan Agreement.

- (i) Disbursement arrangements for ADB Loan in summary
 - Direct payment procedures will generally be used for large civil works contracts, turnkey contracts and consulting services.
 - Imprest Fund along with Statement of Expenditure procedure will be used for others, with a ceiling of \$200,000 per individual payment.
- (ii) Required actions prior to initial withdrawal
 - Authorized signatory letter from the Ministry of Finance of Georgia addressed to ADB.
 - Specimen signatures of authorized signatories.
 - Submission of withdrawal application (initial advance) and duly accomplished estimate of expenditures sheet (*Loan Disbursement Handbook, Appendix 29* [sample form])
- (iii) Imprest Account
 - MDF will establish and operate an imprest account at the Treasury service of MOF immediately after the loan effective date.
 - Currency of the imprest account will be US dollar.
 - The imprest account will be exclusively used to finance the ADB share of eligible expenditures.
 - Initial amount to be deposited into the imprest account for the next 6 months, or 10% of the loan amount, whichever is lower.

For this particular loan, no withdrawals will be made for any subproject estimated to cost more than equivalent of \$2 million until MDF has submitted to ADB the appraisal report for the subproject, in a form and substance satisfactory to ADB. Withdrawal applications and other loan disbursement information are available at ADB Controller's Department's website, <http://lfis.adb.org>.

Annex 4: Financing Plan

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4.4 Allocation and Withdrawal of Loan Proceeds

Table 8: Allocation And Withdrawal of Loan Proceeds

CATEGORY				ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing (SDR)		Percentage of ADB Financing from the Loan Account
		Category	Subcategory	
1	Project Financing Facility	20,946,000		
1A	Subprojects under Window 1		10,473,000	50 percent of total expenditure claimed
1B	Subprojects under Window 2		10,473,000	85 percent of total expenditure claimed
2	Project Management and Capacity Development (Consulting Services)	1,747,000		80 percent of total expenditure claimed
3	Incremental Administration	1,613,000		85% percent of total expenditure claimed
	Unallocated	336,000		
	Total	24,642,000		

Annex 5: Safeguards Plan of Action

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5.1 Environmental - The requirements and procedures for the environmental assessment and review framework are in **Appendix 5.**

- Preparation of initial environment examination/environmental impact assessment
 - Preparation of environmental management plan
 - Public consultation
 - Information disclosure
 - Append to bid document
 - Monitor environmental performance
-

5.2 Land Acquisition and Resettlement (LAR) – None

- Any subproject involving LAR will not be eligible for financing. Each subproject will be approved only after it has been screened for LAR effects by MDF.
-

5.3 Indigenous People – None

- Any subproject involving indigenous people will not be eligible for financing. Each subproject will be approved only after it has been screened for indigenous people by MDF.
-

Annex 6: Project Execution Plan

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6.1 Work Breakdown and Responsibility Matrix

Task Id	Activity	Reference	MDF	CON	CNT	ADB
1	Project Preparatory					
2	Board Approval	-	-	-	-	√
3	Loan Signing	-	√*	-	-	√
4	Loan Effectiveness	LA Section 6.01	√*	-	-	-
5	PAM (Operations Manual)	PA, Schedule para 10	√	-	-	√*
6	Imprest Account	LA Schedule 3 para 5	√*	-	-	√
7	Physical Infrastructure					
	Subproject Identification and	PA Schedule para 2,				
8	Prefeasibility	Appendixes 1, 2, and 3.	√*	-	-	-
	Surveys, Investigations and					
9	Feasibility ^a	PA Schedule para 2	√*	√	-	-
10	Detailed Engineering Design	-	√*	√	-	-
		LA Schedule 5 para 2, PA				
	Safeguard Compliance &	Schedule para 9, and				
11	Mitigation Plan	Appendix 1				
		PA Schedule Appendix 2 para				
12	Municipal Financial Agreements	7	√*	-	-	√
13	Bid Process Management	LA Schedule 4	√*	√	-	√
	Asset Construction and					
14	Commissioning	-	√*	-	√	√
15	Capacity Development^b					
	Technical and Engineering					
16	Management	-	√*	√	-	√
	Institutional and Managerial					
17	Development	-	√*	√	-	√
18	Financial Management	-	√*	√	-	√
19	Operation Management	-	√*	√	-	√
20	Project Management & Administration					
	Project Administration	-	√*	-	-	√
22	Construction Supervision	-	√*	√	-	√
23	Project Performance Monitoring	PA Schedule para 13	√*	-	-	√
24	Measurement & Disbursement	-	√*	-	√	√
25	Accounting and Auditing	PA Section 3.09	√*	-	-	√
26	Covenant Compliance	LA and PA	√	-	-	√
		LA Schedule 5 para 3 and PA				
27	Midterm Review	Schedule para 14	-	-	-	√
28	Project Completion	PA Section 3.08 (c)	√*	-	-	√
29	Loan Account Closing	PA Section 3.08 (c)	-	-	-	√

ADB = Asian Development Bank; CON = Consultants; CNT = Contractors; LA = Loan Agreement; MDF = Municipal Development Fund; PA = Project Agreement.

* With key responsibility.

^a Investment project preparation and analysis.

^b Capacity development done separately for MDF and municipal government.

Note: Task ID corresponds to the tasks in the Gantt chart.

Annex 6: Project Execution Plan

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6.2 Project Activity and Implementation Schedule (Gantt chart)

- Refer to **Appendix 6** for the detailed project activity and implementation schedule (Gantt chart), and subproject-based implementation schedule.

6.3 Contract Award and Disbursement Schedule

- Refer to **Appendix 7** for the proposed contract award and disbursement plan.
-

Annex 7: Project Performance Monitoring and Evaluation

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7.1 Deliverables

Investment Projects Financing Facility:

- Increased quality, coverage, and reliability of water supply, sanitation, solid-waste management, roads, and other municipal infrastructure.

Project Management and Capacity Development:

- Improved capacity of municipal governments to prepare and appraise feasibility, engineering design, environmental, social, or other related studies.
- Improved capacity of municipal governments in project management.
- Strengthened corporate and business planning within MDF.
- Improved capacity of MDF for studies and training of MDF staff, municipal staff, and utility staff to develop MDF capacity.
- Improved operational and long-term planning capacity within MDF.

7.2 Performance Indicators

Investment Projects Financing Facility:

- Nine rehabilitation projects completed in at least 8 municipalities by 2013

Project Management and Capacity Development:

- Nine project feasibility studies prepared and recommendations implemented by 2013
- Design and supervision contracted out in at least 5 municipalities
- At least one municipal government selected by 2009 for project management and at least one subproject implemented by a municipal government by 2010
- New vision for MDF approved by December 2008
- Improved budgeting, finance, and operations procedures in place from January 2010
- Study reports and training completion reports by 2010
- Long-term corporate plan prepared before end of 2008, and annual business plans prepared thereafter.

7.3 Project Performance Report (PPR) - The PPR is part of overall project performance management system, which is being updated basically on a quarterly basis. A sample format is in **Appendix 8**.

Annex 8: Reporting Requirements

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Refer to Project Agreement Sections 3.08 and 3.09.

		<u>Due for Submission</u>
1.	Semi-annual Progress Report (SPR) ^a	within one month after the end of the reporting period
2.	Unaudited Financial Statements	4 months after the end of each related fiscal year
3.	Audited Financial Statements ^b	6 months after the end of each related fiscal year
4.	Project Completion Report	within six (6) months of physical completion of the Project

^a For SPR format, refer to **Appendix 9**.

^a For audit requirements, refer to **Appendix 10**.

Annex 9: Covenants

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Refer to Loan and Project Agreements. MDF will provide the necessary information and ADB will update the status of compliance.

Covenants	LA / PA	Status of Compliance
Environmental		
1. MDF shall ensure that the Project is carried out in compliance with the applicable environmental laws and regulations of the Borrower and ADB's Environment Policy (2002) and each subproject screened and/or assessed in accordance with the agreed environmental assessment and review framework (EARF) as set out in Appendix 1 to this Schedule.	PA Schedule, para. 9; LA Schedule 5, para. 2	
2. MDF shall adopt the Operations Manual for the Project that will cover the policies and procedures to be followed during the Project implementation including (i) the EARF, (ii) the investment subproject preparation and appraisal framework, as set out in Appendix 2 to this Schedule, and (iii) the economic analysis framework as set out in Appendix 3 to this Schedule. The Operation Manual shall also cover the the rules and procedures governing MDF business activities, its relations with its clients. MDF shall not amend or waive any condition of the Operations Manual without prior ADB approval of such amendment or waiver.	PA Schedule, para. 10	
Social		
1. MDF shall also ensure that all subprojects are carried out within the existing right-of-ways and do not involve any land acquisition and/or resettlement that would trigger ADB's Involuntary Resettlement Policy (1995).	PA Schedule, para. 9; LA Schedule 5, para. 2	
2. MDF and municipal gov'ts (MGs) shall carry out subprojects in a socially responsible manner seeking mitigation of any potential social risks.	PA Schedule, para. 9; LA Schedule 5, para. 2	
Financial		
1. Imprest Account; Statement of Expenditures Except as ADB may otherwise agree, the Borrower shall cause MDF to establish immediately after the Effective Date, an imprest account at the Treasury service of the Borrower. The imprest account shall be established, managed, replenished, and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount	LA Schedule 3, para. 5 (a)	
2. Imprest Account; Statement of Expenditures The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account for any individual payment not exceeding \$200,000.00	LA Schedule 3, para. 5 (b)	

Annex 9: Covenants

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Covenants	LA / PA	Status of Compliance
<p>3. Conditions of Withdrawals from the Loan Account Except as ADB may otherwise agree, no withdrawal shall be made from the Loan Account for any Category until:</p> <p>(a) the Borrower has submitted to ADB the duly executed Project Implementation Agreement, satisfactory to ADB</p>	LA Schedule 3, para. 6	
<p>4. Conditions of Withdrawals from the Loan Account</p> <p>(b) MDF has adopted the Operations Manual.</p>	LA Schedule 3, para. 6	
<p>5. Conditions of Withdrawals from the Loan Account</p> <p>(c) MDF has submitted to ADB the subproject appraisal report (SAR) or the subproject summary report (SSR), and the draft Investment Financing Agreement for at least one subproject, all in a form and substance satisfactory to ADB.</p>	LA Schedule 3, para. 6	
<p>6. Conditions of Withdrawals from the Loan Account</p> <p>Notwithstanding any other provision of this Loan Agreement, no withdrawal shall be made from the imprest account for any subproject estimated to cost the equivalent of \$2,000,000, and more until MDF has submitted to ADB the SAR for the subproject, in a form and substance satisfactory to ADB.</p>	LA Schedule 3, para. 7	
<p>7. Retroactive Financing</p> <p>Withdrawals from the Loan Account may be made for reimbursement of reasonable 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 recruitment of consultants for feasibility studies, detailed engineering designs, and preparation of bidding documents for subprojects, and associated goods, works, and consulting services subject to a maximum amount equivalent to 20% of the Loan amount. The arrangement for the payment of retroactive financing shall be agreed between the Borrower and ADB.</p>	LA Schedule 3, para. 8	
<p>8. Except as ADB may otherwise agree, the applications and information required by paragraphs (a) and (b) of this Section shall be submitted to ADB not later than a date three and a half (3.5) years after the Effective Date.</p>	PA Article II: Loans and Grants Section 2.02 (c)	
<p>9. MDF shall maintain records and accounts adequate to record the progress of the Project and of each subproject (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of MDF.</p>	PA Article III: Particular Covenants Section 3.06	
<p>10. MDF shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Project; (iii) the MGs, the subprojects, the subloans and/or grants; (iv) the administration, operations and financial condition of MDF; and (v) any other matters relating to the purposes of the Loan.</p>	PA Article III: Particular Covenants Section 3.08 (a)	

Annex 9 Covenants

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Covenants	LA / PA	Status of Compliance
<p>11. Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months after the said closing date or such later date as ADB may agree for this purpose, MDF shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the utilization of the Loan, the execution of the subprojects, their costs, the performance by MDF of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.</p>	<p>PA Article III: Particular Covenants Section 3.08 (c)]</p>	
<p>12. MDF shall (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and financial statements (balance sheet, statement of income and expenses, and related 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, and (iii) furnish to ADB, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, 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 Loan proceeds and compliance with the financial covenants of the Loan Agreement as well as on the use of the procedures for imprest account), all in the English language. MDF shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.</p>	<p>PA Article III: Particular Covenants Section 3.09 (a)</p>	
<p>13. MDF shall enable ADB, upon ADB's request, to discuss MDF's financial statements and its financial affairs from time to time with the auditors appointed by MDF pursuant to Section 3.09(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.</p>	<p>Article III: Particular Covenants; PA Section 3.09 (b)</p>	
<p>14. Financing Windows Except as ADB may otherwise agree, the following conditions shall apply to financing under Window 1:</p> <ul style="list-style-type: none"> (a) the total cost of a subproject shall not be below \$500,000 equivalent in current prices; (b) each subloan shall be on the terms and conditions described in Section 2.03 of this Project Agreement; (c) each MG shall finance at least 20% of the estimated cost of the subproject; and (d) each MG shall transfer the requested amount in Lari from its total contribution specified in paragraph 4 (c) above into a designated account of MDF, within 15 days upon notice from MDF. 	<p>PA Schedule, para. 4</p>	

Annex 9: Covenants

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Covenants	LA/PA	Status of Compliance
<p>15. Financing Windows Except as ADB may otherwise agree, the following conditions shall apply to financing under Window 2:</p> <p>(a) the total cost of a subproject shall not be below \$100,000 equivalent and shall not exceed \$1,000,000 equivalent in current prices; pooling of smaller but related and contiguous subprojects may be allowed to meet the minimum investment requirement;</p> <p>(b) each MG shall finance at least 15% of the estimated cost of the subproject; and</p> <p>(c) each MG shall transfer the requested amount in Lari from its total contribution specified in paragraph 5 (b) above into a designated account of MDF, within 15 days upon notice from MDF.</p>	<p>PA Schedule, ara. 5</p>	
<p>16. Subproject Documentation</p> <p>The Investment Financing Agreement shall set out terms and conditions of financing, the scope of the subproject, implementation arrangements, expected completion date, roles and responsibilities of the parties thereto, and shall include, among other things, provisions to the effect that:</p> <p>(a) the MG shall operate the subproject with due diligence and efficiency and in accordance with sound administrative, financial and environmental practices, including maintenance of adequate accounts and records;</p> <p>(b) the Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of the subproject;</p> <p>(c) ADB and MDF shall each have the right to inspect such Goods and Works, the MG, the subproject and any relevant records and documents;</p> <p>(d) the MG shall provide for further maintenance of the facilities rehabilitated under subproject and shall not sell or burden them with any obligations towards third parties without written notice to MDF, prior to full repayment of the principal and the interest of the subloan;</p> <p>(e) ADB and MDF shall each be entitled to obtain all such information as each shall reasonably request relating to the subloans and/or grants, the Goods, Works and consulting services financed out of the proceeds of the Loan, the subproject, the MG and other related matters; and</p> <p>(f) MDF shall be entitled to suspend or terminate further access by the MG to the use of the proceeds of the subloan upon failure by the MG to perform its obligations under the Investment Financing Agreement.</p>	<p>PA Schedule, para. 8</p>	

Annex 9: Covenants

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Covenants	LA / PA	Status of Compliance
17. Sustainability MDF shall annually update its medium-term strategic plans, including action plans.	PA para. 11	
18. Anticorruption MDF shall ensure that (a) ADB's Anticorruption Policy (1998, as amended to date) is followed throughout the Project implementation, it is being understood that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices related to the Project; and (b) all bidding documents and contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine Project related records and accounts of MDF, the MGs, contractors, suppliers, consultants, and other service providers. In furtherance of the principles of transparency, accountability and anticorruption, MDF shall enhance its web-site to provide the public with information on the Project, subprojects, major procurement activities under the subprojects.	PA para. 12	
19. Project Performance Management System MDF shall maintain its project management and information system including relevant indicators to monitor and evaluate the technical performance benefits of this Project at 6-months interval.	PA para. 13	
20. Project Review The Borrower, MDF and ADB shall undertake Project review twice a year for the first two (2) years of the Project implementation and once a year thereafter. A mid-term review shall be conducted two (2) years after the commencement of the Project implementation. The mid-term review shall include a detailed evaluation of the Project scope, implementation arrangements and progress in achieving scheduled targets and compliance with Loan covenants.	PA para. 14	
Economic:		
1. MDF shall adopt the Operations Manual for the Project that will cover the policies and procedures to be followed during the Project implementation including (i) the EARF, (ii) the investment subproject preparation and appraisal framework, as set out in Appendix 2 to this Schedule, and (ii) the economic analysis framework as set out in Appendix 3 to this Schedule. The Operation Manual shall also cover the the rules and procedures governing MDF business activities, its relations with its clients. MDF shall not amend or waive any condition of the Operations Manual without prior ADB approval of such amendment or waiver.	PA Schedule, para. 10	

Annex 9: Covenants

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Covenants	LA / PA	Status of Compliance
Others:		
<p>1. Established, Staffed, and Operating PMU/PIU</p> <p>(a) In carrying out of the Project and in the conduct of its business, MDF shall perform all the obligations set forth in the Loan Agreement, to the extent they are applicable to MDF, and in the Schedule to the Project Agreement.</p> <p>(b) MDF shall carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and business practices.</p>	PA Article III: Particular Covenants Section 3.01	
<p>2. Fielding of Consultants</p> <p>In carrying out the Project, MDF shall employ competent and qualified consultants and contractors for the subprojects, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.</p>	PA Article III: Particular Covenants Section 3.02 (a)]	
<p>3. Without limiting the generality of the foregoing, MDF shall furnish to ADB semi-annual reports on the execution of the Project and on the operation and management of MDF. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.</p>	PA Article III: Particular Covenants Section 3.08 (b)]	
<p>4. Subproject Eligibility Criteria</p> <p>(a) Subprojects must be for the rehabilitation, construction, repair, and extension of the existing municipal infrastructure in the following categories: (i) water supply, including resources development and improvement, (ii) sewerage collection and treatment; (iii) sanitation and solid waste collection and disposal; and (iv) local road improvement including drainage and street lighting, (v) other municipal services and goods.</p> <p>(b) Each subproject must:</p> <p>(i) serve the purpose of improving the quality of life, helping meet basic social, environmental, public health standards, and/or promoting local economic development;</p> <p>(ii) be identified primarily on the basis of locally determined needs communicated to MDF by the MGs;</p> <p>(iii) demonstrate that it can yield benefits that can be quantified or otherwise identified with an acceptable degree of certainty;</p> <p>(iv) be in full compliance with all relevant provisions of the Borrower's legislation and regulations, including environmental legislation;</p> <p>(v) be in compliance with ADB's Environment Policy (2002); and</p> <p>(vi) not trigger ADB's Involuntary Resettlement Policy (1995).</p>	PA Schedule para. 2	

Annex 9: Covenants

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Covenants	LA / PA	Status of Compliance
<p>5. Eligibility Criteria for MGs</p> <p>(a) Unless otherwise agreed between ADB and MDF, the MGs eligible for financing under Window I must have a borrowing capacity determined according to the following criteria:</p> <ul style="list-style-type: none"> (i) total annual debt service payments (principal, interest, and any other charges) on all outstanding and proposed subloans for the current year should not exceed 6% of the forecast resources for the same year; (ii) forecast resources are the sum of tax, non-tax, and capital revenues, and the unconditional equalization grant from the national government for the current year as recorded in the approved annual budget; (iii) total outstanding debt should not exceed 100% of forecast resources; and (iv) capacity to repay at least GEL 182,000 per annum in debt service and forecast resources of more than GEL 3.037 million. <p>(b) The MGs that do not meet the criteria set out in paragraph (a) above shall be eligible for financing under Window 2.</p>	PA Schedule para. 3	
<p>6. Subproject Documentation</p> <p>The SAR shall provide information on (i) the scope of the subproject, (ii) investment and financing plans, (iii) environmental screening, and (iv) economic, financial, social and other benefits and risks.</p>	PA Schedule para. 6	
<p>7. Subproject Documentation</p> <p>The SSR shall provide a short description of the subproject, its cost, scope and implementation arrangements, investment and financing plans, and possible benefits.</p>	PA Schedule para. 7	

LA = Loan Agreement; PA = Project Agreement.

Annex 10: References

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10.1 Key Persons Involved in the Project

– **Asian Development Bank:** The Department responsible for the implementation of the Project is the Central and West Asia Department (CWRD), represented by the Social Sectors Division (CWSS). CWSS has the overall responsibility for the implementation of the Project in ADB.

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Annex 10: References

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Annex 10: References

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10.2 ADB Publications, Handbooks, Guidelines, and Policies

- Report and Recommendation of the President to the Board of Directors (RRP)
- Loan Agreement
- Project Agreement
- Loan Disbursement Handbook
- Procurement Guidelines
- Guidelines on the Use of Consultants by ADB and Its Borrowers
- User's Guide
 - Prequalification of Bidders (Standard Procurement Document)
 - Procurement of Goods (Standard Bidding Document)
 - Procurement of Works (Small Contracts)
 - Procurement of Works (Standard Bidding Document)
 - Procurement of Plant-Design, Supply, Install (Standard Bidding Document)
- Guide on Bid Evaluation
- Gender, Law, and Policy Toolkit
- Gender and Development (Our Framework Policies and Strategies)
- Gender Checklist
 - Resettlement
 - Urban Development and Housing
 - Water Supply and Sanitation
- Anticorruption and Integrity
 - Anticorruption and Integrity (Frequently Asked Questions)
- Public Communications Policy (Disclosure and Exchange of Information)
- Handouts
 - Project Cycle
 - ADB's Safeguard Policies
 - Environment Policy
 - Good Governance and Anticorruption
 - Gender and Development
 - ADB's Poverty Reduction Strategy
 - Water Policy
- Useful links
 - E-handbook on Project Implementation – useful and practical guide for implementing ADB-financed projects
<http://www.adb.org/Documents/Handbooks/Project-Implementation/>
 - The Project Administration Instructions (PAIs) outline the policies and procedures to be followed by ADB staff involved in the administration of ADB-financed loan and technical assistance (TA) projects. The PAIs are used in conjunction with operational documents including the Loan Regulations, Operations Manual (OM), Guidelines for Procurement Under Asian Development Bank Loans (Guidelines for Procurement), Guidelines on the Use of Consultants by the Asian Development Bank and its Borrowers (Guidelines for Use of Consultants), and the Loan Disbursement Handbook. <http://www.adb.org/Documents/Manuals/PAI/default.asp>

LOAN PROCESSING HISTORY

(a)	Fact-Finding Mission	29 October – 23 November 2007
(b)	Management Review Meeting	1 April 2008
(c)	Appraisal Mission	Waived
(d)	Staff Review Committee Meeting	Not required
(e)	Loan Negotiations	10-15 July 2008
(f)	Board Circulation	22 August 2008
(g)	Board Consideration and Approval	12 September 2008
(h)	Loan and Project Agreements Signing	11 November 2008
(i)	Loan Effectiveness, including Conditions	12 December 2008
(j)	Loan Closing Date ¹	30 June 2013

¹ This date will be the closing date for withdrawals from the loan account. Goods must have been delivered and services rendered on or before this date to be eligible for payment by the Bank. No payments from the loan can be made after the loan closing date. However, when there is no formal request for extension of the loan closing date, the loan account may still be kept open for a period of three months beyond the loan closing date in order to complete disbursement of outstanding contracts under the loan. This would also allow the EA time to collect and submit documentation and invoices pertaining to expenditures incurred before the loan closing date.