



Millennium Challenge Corporation

Reducing Poverty Through Growth

August 22, 2005

CONGRESSIONAL NOTIFICATION

Pursuant to the requirements of Section 515 of Pub. L. 108-199, we wish to notify Congress of the Millennium Challenge Corporation's ("MCC") intent to enter into a Millennium Challenge Compact with the Government of Georgia ("GOG"), through which MCC will grant up to two hundred ninety-five million three hundred thousand U.S. Dollars (USD \$295,300,000) of FY 2004 Millennium Challenge Account ("MCA") funds. Although the full amount of these funds will be obligated at the time the agreement enters into force, funds will be disbursed in tranches over the course of the Compact's term upon satisfaction or waiver of relevant conditions precedent. This five-year Compact will implement a program, proposed by the GOG, which will advance Georgia's progress towards achieving lasting poverty reduction through economic growth. The Program is designed to:

- Rehabilitate regional infrastructure by improving transportation for regional trade, rehabilitating a major gas pipeline to ensure a more reliable energy supply and making regional and municipal infrastructure services more available; and
- Promote private sector development, particularly in agribusiness and tourism, by investing long-term risk capital, improving the skills and capacity of small and medium enterprises (SMEs), and providing funding and technical assistance to farms and regional businesses and increasing productivity, jobs and rural incomes.

Pursuant to Section 610(a) of the Millennium Challenge Act of 2003 (Section 610(a) Pub. L. 108-199, Division D) (the "Act"), the appropriate Congressional committees were notified of MCC's intent to commence negotiations with the GOG on November 3, 2004. These negotiations have resulted in a mutually agreeable program described herein, which will be formalized in a Compact on substantially the terms and substantially the form of the text of the Compact that is being forwarded with this notification. A summary of key elements of the Compact is set forth in the accompanying "Executive Summary." MCC will provide the final agreed text of the Compact, along with a detailed summary of the text, to the appropriate Congressional committees no later than 10 days after the execution of the Compact, as provided in Section 610(b) of the Act.

**Millennium Challenge Compact between
the United States of America,
Acting through the Millennium Challenge Corporation, and
the Government of Georgia**

Executive Summary

The program to be financed under the Compact seeks to advance economic growth and poverty reduction in Georgia through two project areas proposed by the GOG. Approximately \$211.7 million of MCA funds will be directed toward regional infrastructure rehabilitation for (i) the rehabilitation and construction of approximately 245 kilometers of a main road traversing the Samtskhe-Javakheti region, including technical assistance for a road master plan, operations and maintenance planning and contracting; (ii) rehabilitation of the North-South Gas Pipeline that fuels electric power generation and provides commercial and residential gas and heating services to the country as a whole, and for the provision of advisory services to support implementation of the GoG's energy sector strategy; and (iii) a Regional Infrastructure Development Facility to fund regional and municipal physical infrastructure for water supply, sanitation, irrigation, municipal gasification, roads and solid waste in the regions outside of Tbilisi. In addition, \$47.5 million will support enterprise development, specifically the (i) Georgia Regional Development Fund for a professionally and independently managed investment fund to provide long-term risk capital to SMEs and to identify legal and policy reforms needed to improve the investment environment; and (ii) agribusiness development assistance for technical assistance and grants to farmers and agribusinesses that supply agricultural products to the domestic market and the provision of services for disseminating information on regional market prices and volumes.

The MCA program will be administered by Millennium Challenge Georgia (MCG), an independent entity, the management of which will be overseen by a Supervisory Board consisting of members of Government, parliament, private sector, and civil society and advised by a Stakeholders' Committee comprised of municipal government, private sector and civil society representatives. Financial and procurement management will be managed by an internationally recognized private-sector accounting firm chosen in a competitive process. World Bank procurement guidelines, as modified by MCC, will serve as the basis of a procurement agreement that will govern all procurements under the Compact.

The fiscal accountability mechanisms, governance structure, and audit and review requirements (including monitoring and evaluation) set forth in the Compact and to be further detailed in ancillary agreements and documents, will ensure that appropriate oversight and accountability measures are built into the implementation of the program. In accordance with its Congressional mandate, MCC will only disburse funds consistent with the limitations Congress has placed on the use and treatment of MCA assistance. These limitations are expressly set forth in the body of the Compact. MCC has also retained, through the Compact, approval rights over key agreements and implementation actions, e.g., selection of key service providers (such as the fiscal agent and auditor), certain payments, certain procurements, key personnel decisions for MCA-Georgia, detailed financial plans, and the monitoring and evaluation plan. Finally, prior to the Compact entering into force, the GOG must, among other things, execute a Disbursement Agreement, a Procurement Agreement, and term sheets in connection with certain ancillary agreements.

Where To Find Key Provisions

Compact:

- Article I: Objectives; Term
- Article II: Funding and Disbursement Provisions; Government Contributions
- Article III: Implementation (including procurement, audit, reporting); Government Responsibilities and Assurances
- Article IV: Deliveries and Conditions Precedent to Entry in Force; Conditions Precedent to MCC Disbursement and Re-Disbursement
- Article V: Final Clauses, including Termination and Suspension
- Annex I: Descriptions of the implementation framework and two program elements: (1) Samtskhe-Javakheti Road Rehabilitation; and (2) Enterprise Development
- Annex II: Summary of Multi-Year Financial Plan
- Annex III: Description of the Monitoring and Evaluation Plan