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MUNICIPAL DEVELOPMENT FUND OF GEORGIA (MDFG)

SOCIAL INVESTMENT DEPARTMENT (SID)

(FOR AN EDUCATION SYSTEM REALIGNMENT AND STRENGTHENING PROJECT IN SUPPORT OF THE SECOND PHASE OF THE EDUCATION SYSTEM REALIGNMENT AND STRENGTHENING PROGRAM (APL #2)

Operating Manual

Tbilisi
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Note

The presented Operating Manual (OM) represents the document of the Municipal Development Fund of Georgia (MDFG) for an Education System Realignment and Strengthening Project in support of the second phase of the Education System Realignment and Strengthening Programme (APL #2). The MDFG represents the juridical entity of public, established by the Decree #294 of the President of Georgia dated June 7, 1997 and on the basis of further corrections.

Presented OM sets out the objectives, general structure and operating procedures for the MDFG. It is accompanied with Annexes with the proper Manuals. The OM is an evolving document that will need to be periodically reviewed and corrected in coordination with the Supervisory Board (SB) and the World Bank (WB).

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Annexes:
Annex 1- MDFG Charter
Annex 2- Administrative Manual
Annex 3- Management Information System Manual
Annex 4- Environmental Handbook
Annex 5- Financial Manual

Glossary

APL	Adaptable Program Loan (used also to refer to this Adaptable Program Credit)
CQS	Consultant's Qualifications' Selection
DC	Direct Contracting
ED	Executive Director
EMP	Environmental Management Plan
FD	Financial Division
GoG	Government of Georgia
HOC	Hand Over Committee
IC	Individual Consultant
ICB	International Competitive Bidding
IDA	International Development Association
IS	International Shopping
LCS	Least Cost Selection
MDFG	Municipal Development Fund of Georgia
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MIS	Management Information System
SH	Shopping
NCB	National Competitive Bidding
OM	Operational Manual
SAW	Statement of Accomplished Works
SB	Supervisory Board
SID	Social Investment Department
SM	School Management
SOE	Statement of Expenditure
TD	Technical Division
TE	Technical Expert
TOR	Terms of Reference
WB	World Bank

MUNICIPAL DEVELOPMENT FUND OF GEORGIA (MDFG) OBJECTIVES AND STRUCTURE

CHAPTER 1: MDFG OBJECTIVES

1.1 Political and Social Background

One of the biggest tasks for Georgia in terms of further development is defining the strategy and vision for the fields of high priority such as education, healthcare, legislation, etc. Therefore, nowadays Georgia has to develop its approach and action plan meanwhile considering the national, local community features in relation with the Country regulation aspects.

The Government of Georgia (GoG) is working on long term strategy for the reduction of the poverty, which aim is to increase the well being of the population.

Education has always been highly prized in Georgia as an educated population and skilled labor force is crucial for creating an environment conducive for sustained economic growth and social development.

In spite of the problems regarding the infrastructure of school buildings, besides solution of the mentioned problems it is important as well the structural reforms to be conducted in education system in order the mentioned system to satisfy the market economic and democratic society needs and demands. The reforms that are to be conducted in education system have a broad and important character and the World Bank (WB) takes the responsibility to co-operative tightly with the GoG in order to support conducting of main reforms within program loan that is being adapted during 12 years. The GoG of Georgia has appealed to the WB with the request on the loan apportion for financing of preparatory works regarding approving the adaptable program loan stage that envisages the improvement and rehabilitation of the school infrastructure. Within the adaptable program loan the special attention is paid to conducting of systematic amendments. The rehabilitation and construction of schools is too essential in order the long terms goals of the reforms to be achieved.

1.2 MDFG Objective

The objective of the legal entity of public law – the MDFG – coordination and implementation of the current municipal, social and irrigation projects, financed by the International Development Association and other donors.

1.3 Project Description

1.3.1 Program Objectives and Stages

The proposed Project is the second phase of an on-going three phase Adaptable Program Loan (APL) for the Georgian education system. The APL-Program seeks to effectively realign the objectives of the education system and enhance the policy and management capacity in order to improve efficiency and the quality and relevance of learning outcomes and better prepare students to meet the demands of a market economy and democratic society.

Each phase of the Program seeks to achieve the following:

- APL I (2001- 2007): An institutional framework for the effective realignment of system objectives and a more efficient use of its resources is developed.
- APL II (2006 - 2009): New institutional and policy framework to increase efficiency and quality in primary and general secondary education is implemented.

- APL III (est. 2009 – 2013): Extension nationwide, consolidation, external efficiency issues begin to be addressed.

1.3.2 Project components

-Component One: Improving the Pedagogical Environment.

- ***Sub-Component 1a: Elaboration of National Studying Program and Students' Evaluation System***
- ***Sub-Component 1b: Teachers' Professional Development***

-Component Two: Improving the Physical Learning Environment. The main objective of this component is to improve the school physical learning environment in targeted schools to complement the investments on improving the quality of the pedagogical learning environment and to demonstrate how the efficiency of the school network could be improved through the adoption of more efficient school building standards and through school consolidations. The main outcomes of this component will be: (i) Improvement of satisfaction, learning and learning motivation for those students that start learning at newly rehabilitated or built schools; (ii) there will be no children studying in school buildings that are determined to be in structurally unsafe or in non-educationally appropriate buildings; (iii) the government will elaborate the repairs and maintenance and operation strategy for of the school network; (iv) the budgets of the reconstructed schools show that they are financially viable and have more resources than similar, non-reconstructed schools for non-salary and non-utility expenditures.

The WB credit will be used to finance the construction, furnishing and equipping of about 8 schools in different parts of the country.

The new national construction standards have been determined for the school building, taking into consideration the needs of the new learning programs that will be used during designing and construction process of schools. In accordance with the decision of the Ministry of Education and Science (MoES) by determination of priorities regarding construction of schools, the following should be taken into consideration: (i) if the School does not possess the building, (ii) the children are currently studying in wagons or other educationally inappropriate places; or (iii) the engineers found the building to be structurally unsafe. In the latest case, it was determined that the school rehabilitation cost would be higher or equivalent to school construction cost.

At the MoES is to be elaborated the maintenance and repairs strategy of Schools for provision of proper maintenance and operation of the school infrastructure within the Component what for the proper amendments will be made in the Law on General Education and the regulating acts will be adopted. At the MoES will be elaborated the repairs and maintenance and operation manual for schools and special training will be conducted regarding usage of the manuals in order the possibilities of the school boards and managers of the given field to be developed.

1.3.3. Institutional and implementation Scheme

Within the II Component of the APL the Deputy Minister of MoES determines the Technical Coordinator to work with the agency in charge of the implementation of the school's construction program as well as for cooperation with the responsible structure - MDFG. The MDFG and the MoEs within the project agreement and on the basis of the coordination will implement the activity regarding implementation of the schools' construction program. The MDFG will be accountable to the MoES, MoF and the WB regarding usage of the funds, allocated within the credit.

CHAPTER 2: MDFG ORGANISATIONAL STRUCTURE

2.1. MDFG Organizational Structure

The MDFG governing bodies are the following:

a. The Coordination of the MDFG activity and its management is conducted by the Supervisory Board (SB), the composition of which is appointed by the Decree of the Government of Georgia.
b. The MDFG is managed by the Executive Director (ED), appointed and dismissed by the Prime Minister.

MDFG's organization is as follows:

a. ED;
b. Internal Audit Service;
c. Administrative Department (which includes: Procurement Division; Financial Division; Management Information Systems Division; Administrative Support Unit);
d. Investment and Loans Department (which includes: Technical Division; Project Management, Monitoring and Evaluation Division);
e. Social Investment Department (SID) (which includes Technical Division; Project Management, Monitoring and Evaluation Division);
f. Irrigation Department (Melioration Associations; Technical Division; Management Information Systems Division).

CHAPTER 3: MDFG OPERATING METHODOLOGY

3.1 Procurement

3.1.1 General Principles

Civil works, goods and services to be financed using proceeds of the WB Credit will be procured in accordance with the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the WB in May 2004, and "Guidelines for Selection and Employment of Consultants by World Bank Borrowers" published in May 2004.

The rules governing domestic preferences are applicable to works carried out by Georgian contractors and the purchase of goods manufactured in Georgia in accordance with the provisions outlined in the "Guidelines for Procurement under IBRD Loans and IDA Credits".

3.1.2 Procurement of Civil Works

Civil Works will be procured as follows:

(a) International Competitive Bidding (ICB**):** All works contracts estimated to cost USD 2,000,000 equivalent or more per contract must be procured through ICB.

(b) National Competitive Bidding (NCB): Works contracts estimated to cost less than USD 2,000,000 equivalent per contract may be procured through NCB.

(c) Works contracts estimated to cost less than USD 100,000 equivalent per contract may be procured under fixed-price contracts awarded on the basis of price quotations (shopping) obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of works, including basic specifications, the required completion date, a basic form of agreement acceptable to the WB, and relevant

drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotations for the required work, and who has the experience and resources to complete the contract successfully.

(d) Direct Contracting (DC): Works for tasks which meet the requirement of paragraph 3.6 (a) of the Procurement Guidelines for Direct Contracting, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.1 and 3.6 (a) through 3.6 (e) or the Procurement Guidelines.

3.1.3 Procurement of Goods

(a) International Competitive Bidding (ICB**):** Goods contracts estimated to cost USD 300,000 equivalent or more per contract will be procured through ICB.

(b) National Competitive Bidding (NCB): Goods contracts estimated to cost less than USD 300'000 equivalent per contract may be procured through NCB.

(c) Shopping (SH): Goods estimated to cost less than USD 100,000 equivalent per contract may be procured through shopping.

(d) Direct Contracting (DC**)**: Spare parts and items which are of a proprietary nature estimated to cost USD 100,000 or less in the aggregate may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.6 of the Procurement Guidelines.

3.1.4 Selection Procedures for Consulting Services

Contracts for consulting services will be awarded using the following methods of selection:

(a) Except for the cases mentioned below under (b),(c), and (d), Quality and Cost Based Selection (QCBS) procedures will be used for the procurement of all consultant services.

(b) Fixed Budget Selection (FBS) procedures will be used for the preparation of the Consultant's assignment for simple and precisely defined feasibility studies, when the budget is fixed.. Under this method the consulting services will be procured with the Association's prior agreement, in accordance with the provision of paragraph 3.5 of the Consultants Guidelines.

(c) Least Cost Selection (LCS) procedures will be used for auditing services to cost less than USD 150,000 equivalent per contract in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultants Guidelines

(d) Selection based on Consultants Qualifications (CQS) will be used for consultant assignments estimated to cost less than USD 100,000 equivalent per contract in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultants Guidelines.

(e) Services for tasks in circumstances which meet the requirement of paragraph 3.11 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.1 and 3.9 through 3.12.

(f) Individual Consultant selection (IC) procedures will be used for assignments which meet the criteria specified in the provisions of paragraphs 5.1 through 5.3 of the World Bank Consultant Guidelines.

The short lists for the consultant assignments may comprise entirely national consultants (firms registered or incorporated in the country), if the assignment is less than USD 100,000 equivalent, a sufficient number of qualified firms (at least six) are available at competitive costs, and competition including foreign consultants does not appear to be justified. However, if foreign firms have expressed interest, they shall not be excluded from consideration.

3.1.5 Review by the WB of Procurement Decisions

3.1.5.1 Scheduling of Procurement

The MDFG shall prepare the procurement plan acceptable to the WB. The MDFG shall update the procurement plan annually or as needed throughout the duration of the project. The MDFG shall implement the procurement plan in the manner in which it has been approved by the WB.

3.1.5.2 Prior Review

(a) Civil Works**:** All ICB contracts, the first two NCB contracts and all NCB contracts exceeding USD 500,000 equivalent and the first two Shopping contracts and all DC contracts will be subject to prior review

(b) Goods**:** All ICB, the first two NCB contracts and all NCB contracts exceeding USD 200'000, the first two Shopping contracts and all DC contracts will be subject to prior review;

(c) Consulting Services:

- For contracts for consulting firms estimated to cost USD 100,000 and more: requests for Proposals (RFP), terms of reference, shortlists, terms and conditions of contracts as well as evaluation reports and recommendation of award will be subject to prior review.
- For contracts for individual consultants estimated to cost more than USD 50,000 equivalent qualifications, experience, terms of reference and terms and conditions of contracts as well as evaluation reports and recommendation of award will be subject to prior review.

3.1.5.3 Ex-post review

During WB supervision missions, at least one out of five procurement packages not subject to WB prior review will be examined ex-post.

3.2. Contracting

The MDFG will prepare the Contract with the Contractor. The Contract will be revised by the Technical Supervisor (TS) and the MDFG Legal Advisor. After the Contract is signed between the Contractor and Executive Director and after the recommendation of the Head of Technical Division (TD)

and Social Investment Department (SID) Manager, the MDFG authorizes officially the Contractor on implementation of the project works.

3.3. Supervision

The project supervision during the implementation process should be implemented on a regular basis in order to:

- ensure that funds allocated by the MDFG are used only for the purposes for which they were granted with due consideration to economy, efficiency and quality;
- identify and solve problems during implementation in a timely manner;
- Obtain such information/data which the MDFG may use to improve its policies and operation.

Technical Supervision of works (on infrastructure projects) will be undertaken by:

- TD group of the MDFG (TS);
- The Representative of the MoES/School Management (SM) that will conduct the monitoring of goods, works or service quality and provide supervision of the work, conducted by the Contractor.

Supervision by MDFG. The TS at the MDFG is responsible for implementation of regular (daily) supervision on the project implementation. The TS will conduct the monitoring and represent the Reports on the issues as follows:

- Project implementation process;
- Implemented amendments of the project or plans and the reasons, conditioning the mentioned amendments;
- Implemented steps or proposals on how the project should meet the deadlines and the project or how it may be changed in such a way to satisfy the changed circumstances;
- Project assimilated funds.

During the mentioned monitoring the TS will cooperate with Contractor, MoES/SM Representative and in case of need with the representative of the design organization and will discuss with them the issues, arisen during the project implementation.

The mentioned monitoring aims the following:

- Revision of construction work process and quality;
- Signing the Statement of Accomplished Works (SAW) with the Contractor and the MoES/SM Representative; The SAW is conducted once a month as minimum (in case of need the mentioned date may be changed, if it is reasonable);
- Definition of the Contractor's technical, management and other problems and identifying the ways for their solution; and
- Provision of No Objection on change orders, taking into consideration the below given restrictions;

The TS will use at the facility the following documents:

- The copies of the main Agreement and Contracts;
- The daily report journal for the works' implementation;
- The copies of reports for previously implemented works;
- The copy of the previous report together with the photo material.

The TS will consider the list of works from the Calendar Plan and will revise on place: (1) Whether the implemented work corresponds to technical specifications; (2) How precise are the reports of the Contract on the work implementation process. If there is any impreciseness in the reports, the TS will indicate on them in the Daily Report Journal and provide the Head of the TD with the mentioned information in a written form. If there is the considerable difference, then the TS may conduct the further

revision; report on it in a timely manner to the Head of the TD that will discuss the further issue with the SID Manager and the ED.

The TS will prepare the photo material of the facility that is essential for the report that is to be submitted to the MDFG. While being at the facility the Contractor will provide the TS with the SAW for approval and signing. The MoES/SM representative or its authoritative person signs the SAW by what confirms that the works are implemented satisfactorily. If the TS is satisfied with all implemented works and the information of daily report journal on implementation of works correspond to the works that are actually implemented at the facility then the TS will sign the SAW.

Afterwards the TS will present the Tax Task to the Head of the TD that will revise the Tax Task and provide with it the Financial Division (FD) of the MDFG. The Accountant will revise the Tax Task and in case of consent will prepare the Tax Task for signing by the FD of the MDFG. The head of the FD will sign the Tax Task and give it for signing to the ED. The payment will be implemented on the bank account of the Contractor during 5 working days after the Tax Task is received by the FD.

The TS will prepare the proper report at the end of every month where the following issues will be discussed in detail:

- Project implementation main aspects;
- Implemented activity;
- Arisen problems and difficulties;
- Actions taken to date;
- Further action to be taken.

The supervision report should also include a report on investment costs; updated project implementation schedule.

Supervision monitoring with participation of the Project Technical Expert (TE) may be conducted at the request of the TS, MoES/SM or Contractor; on the basis of information obtained from project progress reports; or to review and where possible, assist in resolving problems relating to performance of the various actors in the implementation process. On completion of a special supervision mission, the Project TE should prepare the field trip Report as soon as the latter is returned to the Office. The report should state the reasons for the monitoring, action taken at the project site and any additional action required to assist with project implementation.

All supervision reports should be prepared and submitted to the Head of TD within five working days after the visit is completed. The Head of TD together with the SID Manager will review the reports noting his/her approval or disapproval of the actions proposed, sign the appropriate space and circulate the reports to the ED of the MDFG for coordination.

The Design Organization will provide the MDFG and the MoES with the author's supervision regular reports.

Problematic Issues' Classification. During the supervision process the TS is obliged to reveal and report to the MDFG management about existence of such projects that will be classified as the "Problematic Issues" and need urgent attention. The issue may be considered to be problematic if:

- The project implementation is so late that it becomes doubtful if the achievement of the project goals is possible;
- During the project implementation process the technical problems arise constantly by the side of the Contractor;
- External factors reflect on the project implementation process and made danger for its viability.

The case is considered non-problematic if there was noted no considerable difficulty during the project implementation process. The problematic projects should be discussed attentively by the Head of the TD and TS in order the proper arrangements to be implemented for the project problems to be eradicated.

3.4. Change Orders

Because of the nature of the civil works, changes to the initial contract will often be required. If a contractor requires a change order, the contractor must prepare a Change Order request, and forward it in written form for approval to the TS, Project Design Author and MoES/SM. In order not to interfere with the pace of rehabilitation works and if the Change order increases the Contract Price to 5%, then the TS will consider the mentioned request on site, after which the recommendation will be prepared and presented to the Head of the TD for consideration and then to the SID Manager and ED for final approval. Change Order that raise the Contract Initial Price to more than 5%, should be sent to the MoES and the WB in order the no-objection to be received.

3.5. Project completion

The project completion stage involves certification of works completed, final payments and preparation of a project completion report. The project completion report, to be generated by the Management Information System (MIS) will evaluate contractor's performance, project processing time and cost.

Preliminary and final Hand-Over Agreements Certification. Upon completion of the civil works, a completion and hand-over meeting will be held for each project. The Hand-Over Committee (HOC) will be formed, consisting of the following persons:

- TS;
- SM representative;
- MoES representative;
- The Contractor's authorized person;
- Designing Organization.

The HOC will gather at the project site, examine the quantity and quality of works done and render a decision regarding the satisfactory completion of works. There are two options at this stage to sign the Preliminary Hand-Over Agreement:

- If the HOC determines that the works are completed, and the quality is satisfactory for all concerned parties and corresponds to the terms of the original contract; the Preliminary Hand-Over Agreement will be signed without any comments. The Preliminary Hand-Over Agreement date marks the beginning of the Defect Liability Period.
- If the HOC determines that some works need to be completed or corrected, a set of written recommendations will be given to the implementer of works and the date of further Preliminary Hand-Over Agreement signing will be designated. On that day, the Committee will gather once again and verify that all defects were corrected. If the project is acceptable, then the Preliminary Hand-Over Agreement will be signed.

After the signing of the Preliminary Hand-Over Agreement, the TS will submit the final Request for Payment to the MDFG who will process it according to the project payment procedures.

The Defects Liability Period is the time between the issuing of the Certificate of Completion of the Works and the period so designated in the Construction Contract. The duration (not be less than 6 month) of the Defects Liability Period depends on the size, type of project and the implementation period as outlined in the Construction Contract. If during the Defects Liability Period the works are found to be satisfactory, the retention money may be paid to the contractor upon the issuing of Hand-Over Agreement on the Defects Liability. At this point, the Contractor will receive from the MDFG the Hand-Over Agreement on successful completion and satisfactory quality of the contracted works.

After Hand-Over Agreement issuing the project implementation process is finished. From this moment, the local self-government and local organizations are responsible for operation, maintenance and repairing expenses of the facility.

Project Completion Report. On successful implementation and hand over of a project, a Project Completion Report will be prepared by the TD that is signed by the MoES/SM. The Design Organization should present as well the report confirming that the completed works are implemented in accordance with the prepared project.

3.6 Project Management, Monitoring and Evaluation

Project Management, Monitoring and Evaluation Division will direct and be responsible for the aspects of the projects' implementation. The project management team elaborates and supervises the monitoring of the projects and the evaluation plan, regarding the project it establishes relations with the proper resource centers, SM, private sector and governmental structures; coordinates as well the organizational and technical demands concerning the projects and provides the monitoring and proper reporting; As the considerable stage evaluation prepares the current and financial reports; summarizes and analyzes the information regarding projects that is obtained through the collection of the proper data, provides the projects' evaluation, supervision and administration; In coordination with the Information Systems Division develops the integrated system of the database.

Management Information System. Monitoring of MDFG's activities will be effected through the use of a computerized Management Information System (MIS).
The MIS will monitor the project cycle and the performance of the MDFG in relation to programmed targets. The components of the MIS are:

a. project database that will enable management and staff of MDFG to monitor the project implementation cycle through all stages;
b. budgeting and supervision control system to facilitate obtaining the information on project budget, expenses' circulation and the physical condition of the facility; and
c. financial and accounting system to provide the necessary data to the other systems in order to provide a view of the complete financial figures, of the facility and allow comparison of expenditures against targets.