

CONFORMED COPY

CREDIT NUMBER 3265 GE

Development Credit Agreement

(Third Structural Adjustment Credit)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 1999

CREDIT NUMBER 3265 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 30, 1999, between GEORGIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated June 3, 1999 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in three (3) tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications thereof set forth below (the General Conditions)

constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made."

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement."

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions. Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement; and

(b) "Enlarged Investment Council" means the consultative body chaired by the President of Georgia, high ranking government officials, chairmen of Parliamentary Committees, representatives of the business community, and the Center for Enterprise Restructuring and Management Assistance.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to forty-four million three hundred thousand Special Drawing Rights (SDR 44,300,000).

Section 2.02. (a) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be

deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited in the Deposit Account in support of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account:

(i) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 14.8 million, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the actions described in Section I of Schedule 2 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program;

(ii) after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of SDR 29.5 million, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association:

(A) with the progress achieved by the Borrower in the carrying out of the Program;

(B) that the actions described in Section II of Schedule 2 to this Agreement have been taken; and

(C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program.

(e) If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2000 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at

such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2009 and ending May 15, 2034. Each installment to and including the installment payable on May 15, 2019 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the

Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date, Termination

Section 5.01 The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has in place a macroeconomic framework consistent with the objectives of the Program as determined on the basis of indicators agreed with the Association.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
70, Ir. Abashidze St.
380062 Tbilisi
Georgia

Telex:

212348 MOFIN

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

GEORGIA

By /s/ Tedo Japaridze

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Judy O'Connor

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials

	667	-	Pearls, precious and semiprecious stones, unworked or worked
fuel	718	718.7	Nuclear reactors, and parts thereof;
for			elements (cartridges), non-irradiated, nuclear reactors
	728	728.43	Tobacco processing machinery
	897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
	971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Section I: Actions Referred to in Section 2.02 (d)(i) of this Agreement

1. The Borrower has issued a decree on the overall reorganization of the Ministry of Finance of the Borrower, satisfactory to the Association.

2. The Borrower has: (a) demonstrated to the Association that the execution of the budget for year 1999 has complied with the key standards agreed upon with the Association; and (b) adopted a budget for year 2000 which provides for adequate allocations for health and education sectors and for poverty benefits, and is executing the budget for year 2000 in compliance with key standards agreed upon with the Association as of the date of the report to be submitted to the Association pursuant to Section 3.01 of this Agreement.

3. The Borrower has: (a) issued enabling regulations necessary for the implementation of the Licensing Law of May 1999; (b) submitted to the Association a satisfactory report summarizing the results of a regulatory impact assessment of the licensing regime; and (c) on the basis of said assessment, has prepared an action plan, satisfactory to the Association, to address the identified problems for effective implementation of the licensing reform.

4. The Borrower has: (a) issued the implementation regulations relating to the Procurement Law of December 1998; (b) adopted an institutional strengthening plan, satisfactory to the Association, for carrying out state procurement; and (c) submitted evidence satisfactory to the Association that procurement for state orders had been

carried out in substantive compliance with the Law on State Procurement of December 1998 and other enabling regulations in at least two (2) governmental agencies, selected upon agreement with the Association.

5. The Borrower has submitted to the Association a strategy for the development of the Poti Port and establishment of an adequate regulatory framework for the port sub-sector, satisfactory to the Association.

6. The Borrower has: (a) entered into a contract with financial and legal advisors, acceptable to the Association, to assist in the privatization of telecommunication enterprises; (b) submitted to the Association a satisfactory privatization strategy, including a timetable, for the telecommunication sector; and (c) developed a regulatory framework for the telecommunication sector, acceptable to the Association.

7. The Borrower has submitted to the Association a report demonstrating satisfactory progress in the implementation of the Borrower's non-infrastructure privatization program in accordance with the timetable of such program.

8. The Borrower has: (a) prepared a report summarizing the results of the last bi-annual review of the quality of the business environment carried out by the Enlarged Investment Council and has prepared an action plan, satisfactory to the Association, to address the problems identified in such report; and (b) established a framework for registration procedures satisfactory to the Association.

9. The Borrower has enacted an amendment to the Law on the Administration and disposition of State-owned Non-agricultural Land of November 1998 and issued its implementation regulations, satisfactory to the Association.

10. The Borrower is current with implementation of the hospital restructuring program and its timetable, agreed upon by the Borrower and the Association.

Section II: Actions Referred to in Section 2.02(d)(ii)(B) of this Agreement

1. The Borrower has: (a) demonstrated to the Association that the execution of the budget for year 2000 has complied with the key standards agreed upon with the Association; and (b) furnished to the Association satisfactory evidence that no budgetary arrears have been accumulated in the health and education sectors, and with respect to the poverty benefits, as of the date of the report to be submitted to the Association pursuant to Section 3.01 of this Agreement.

2. The Borrower has: (a) enacted new legislation governing fees, certification procedures, and accreditation procedures, and issued enabling regulations for the implementation of said legislation; (b) submitted to the Association a report on the progress achieved in the implementation of the licensing reform, including the implementation of the measures provided in the action plan referred to in paragraph 3(c) of Section I of this Schedule; and (c) has identified further measures to ensure effective implementation of the licensing reform.

3. The Borrower has: (a) carried out a review of the implementation of the Law on State Procurement of December 1998; (b) based on this review, has introduced amendments, if found necessary, to the Law on State Procurement and enabling regulations, acceptable to the Association; (c) based on the review referred to in (a) hereinabove, prepared an action plan, satisfactory to the Association, to address identified problems and to ensure effective implementation of the public procurement reform; and (d) submitted evidence satisfactory to the Association that procurement for state orders had been carried out in substantive compliance with the Law on State Procurement and enabling regulations by the local governments.

4. The Borrower has prepared a report summarizing the results of the last bi-annual review of the quality of the business environment carried out by the Enlarged Investment Council, including the implementation of the action plan referred to in paragraph 8 of Section I of this Schedule; and has prepared an action plan, satisfactory to the Association, to address the problems identified in such report.

5. The Borrower has entered into a contract with financial and legal advisors, acceptable to the Association, to assist with the implementation of the development strategy for the Poti Port, including structuring concessions arrangements for certain

Poti Port operations.

6. The Borrower has approved and issued offering memoranda for the Georgia Telecommunications and for the Georgia Electro Communications.

7. The Borrower has submitted to the Association a second report demonstrating satisfactory progress in the implementation of the Borrower's non-infrastructure privatization program in accordance with the timetable of such program.

8. The Borrower has: (a) satisfactorily implemented the first phase of the hospital restructuring program agreed upon with the Association; and (b) prepared an action plan, including a timetable, satisfactory to the Association, for the implementation of the second phase of said plan.

