

CONFORMED COPY

CREDIT NUMBER 3157 GE

Project Agreement

(Enterprise Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CENTER FOR ENTERPRISE RESTRUCTURING AND MANAGEMENT ASSISTANCE

Dated January 27, 1999

CREDIT NUMBER 3157 GE

PROJECT AGREEMENT

AGREEMENT, dated January 27, 1999 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CENTER FOR ENTERPRISE RESTRUCTURING AND MANAGEMENT ASSISTANCE (CERMA).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Georgia (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eleven million Special Drawing Rights (SDR 11,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that CERMA agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary agreement to be entered into between the Borrower and CERMA the proceeds of the Credit provided for under the Development Credit Agreement will be made available to CERMA on terms and conditions set forth in said Subsidiary Agreement; and

WHEREAS CERMA in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) CERMA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and CERMA shall otherwise agree, CERMA shall carry out the Project in accordance with the Implementation Program set forth in the Schedule to this Agreement. Section 2.02. Except as the Association shall otherwise agree, procurement of goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. CERMA shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, and maintenance) in respect of the Project Agreement.

Section 2.04. CERMA shall duly perform all its obligations under the Subsidiary Agreement. Except as the Association shall otherwise agree, CERMA shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Agreement or any provision thereof.

Section 2.05. (a) CERMA shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Agreement, and other matters relating to the purposes of the Credit.

(b) CERMA shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by CERMA of its obligations under this Agreement and under the Subsidiary Agreement.

ARTICLE III

Management and Operations of CERMA

Section 3.01. CERMA shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. CERMA shall at all times operate and maintain its equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering and, financial practices.

Section 3.03. CERMA shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) CERMA shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) CERMA shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited, and (B) an opinion on such statements and a report of such audit, by said auditors, of such scope and in such detail as the Association shall reasonably request; and

(iii) furnish to the Association such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

ARTICLE V

Effective Date; Termination Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of CERMA thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate; or

(ii) the date fifteen (15) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify CERMA of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Center For Enterprise Restructuring

and Management Assistance:

42a Kazbegi Ave.
2nd Building, 5th Floor
380060 Tbilisi
Georgia

Facsimile:

995-32-307-703

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of CERMA or by CERMA on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Executive Director, or by such other person or persons as CERMA shall designate in writing, and CERMA shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Johannes Linn

Regional Vice President
Europe and Central Asia

CENTER FOR ENTERPRISE RESTRUCTURING AND
MANAGEMENT ASSISTANCE

By /s/ Tedo Japaridze

Authorized Representative

SCHEDULE

Implementation Program

1. CERMA shall select enterprises to be included under Part A of the Project and enterprises, whose manager or managers are to be included in the training under Part B of the Project, in accordance with the following criteria:

(a) it is a duly established enterprise under the laws of the Borrower, in which more than fifty percent (50%) of the proprietary interests of the enterprise is held by individuals or companies not owned or controlled by the Borrower, the Borrower's local authorities or any subdivision thereof;

(b) enterprise not subject to price control, restriction on sales and is not dependent on Borrower-owned or controlled monopoly supplier;

(c) the management has demonstrated, through issuance of a letter of intent, its willingness to fully cooperate with outside consultants, including provision of access to information, and to pay at least five percent (5%) of the total cost of advisory services; and

(d) improvements in profitability of enterprise can be achieved through organizational, accounting, financial and/or marketing measures without initial need for capital investments as demonstrated by a diagnostic study carried out under Part A.1 of the Project (not applicable in enterprises whose manager or managers are to be included in Part B of the Project).

2. CERMA shall enter into a written contract with each Eligible Private Enterprise for the purposes of Part A of the Project and with each Eligible Private Enterprise whose manager and or managers were selected to participate in Part B of the Project which shall, to the extent possible, be based upon the model contract approved by the Association. Such agreements shall include: (i) the percentage of total cost of technical assistance to be provided under Part A of the Project for the benefit of the respective Eligible Private Enterprise, which shall be no less than five percent (5%) of such total cost; and/or (ii) the undertaking that all local cost incurred regarding the training of manager or managers of the respective Eligible Private Enterprise under Part B.1 and B.3 of the Project shall be borne by the respective Eligible Private Enterprise.

3. CERMA shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about January 1, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association and the Borrower, by February 1, 2001, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.