

CONFORMED COPY

CREDIT NUMBER 3264 GE

Development Credit Agreement

(Structural Reform Support Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 1999

CREDIT NUMBER 3264 GE

DEVELOPMENT CREDIT AGREEMENT

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

WHEREAS (A) the Association has agreed to provide assistance in support of: (i) the Borrower's program of structural adjustment of its economy (the Program) by providing a credit on the terms and conditions set forth in an agreement of even date herewith between the Borrower and the Association (the Third Structural Adjustment Credit); and (ii) the Borrower's program of structural adjustment of its energy sector (the Energy Restructuring Program) by providing a credit on the terms and conditions set forth in an agreement of even date herewith between the Borrower and the Association (the Energy Sector Adjustment Credit);

(B) the Association has received a letter dated May 31, 1999 from the Borrower describing a program of actions, objectives and policies designed to restructure its hospital sector (Hospital Restructuring Program); and

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

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 set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association 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."

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

(a) "Eligible Categories" means categories (1) through (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(c) "Health PCU" means the Project Coordination Unit established by the Borrower's Ministry of Health pursuant to the Ministerial Decree No. 5a/7-36, dated August 27, 1996;

(d) "HRF" means the Hospital Restructuring Fund to be established under Part A (1) of the Project;

(e) "NBG" means the National Bank of Georgia, the central banking institution of the Borrower;

(f) "Operational Manual" means the manual to be approved by the HRF in agreement with the Association, describing eligibility criteria, selection, approval and supervision rules and procedures for activities to be financed by the HRF, as such Operational Manual may be changed from time to time upon agreement with the Association;

(g) "PIU" means the Project Implementation Unit, established within the Borrower's Ministry of Trade and Foreign Economic Relations under the supervision of the Investment Council chaired by the President of Georgia;

(h) "Project Account A" and "Project Account B" mean the accounts to be established for the purposes of making available the Borrower's contribution to the Project, referred to in Section 6.01 (a) of this Agreement;

(i) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(j) "Public Information Center" means the agency to be established pursuant to the provisions of Part A.3 (c) of Schedule 1 to this Agreement; and

(k) "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement and refers collectively to Special Account A and Special Account B, as each term is defined in Part B.1 of Schedule 1 to this Agreement.

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 twelve million two hundred thousand Special Drawing Rights (SDR 12,200,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be March 31, 2002 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 canceled; 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 charges 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 them 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices, and shall provide, 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 Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Without limitation upon the provision of Section 3.01 (a), the Borrower shall: (a) open Project Account A and Project Account B in a commercial bank with initial deposits in local currency equivalent to at least \$50,000 each; (b) make adequate quarterly deposits into said Project Account A and Project Account B to re-establish a balance equivalent to \$50,000, or such other amount as may be agreed by the Association from time to time; and (c) use the funds of the Project Account A and Project Account B exclusively for financing the implementation of the Project.

ARTICLE IV

Financial and other Covenants

Section 4.01. (a) The Borrower shall, through the PIU, establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures for and in connection with the carrying out of the Project.

(b) The Borrower shall, through the PIU:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account 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) of this Section for such year as so audited; and (B) an opinion on such financial statements, records and accounts and the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as the Association shall from time to time reasonably

request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(a) of this (i) maintain or cause to be maintained, in accordance with paragraph Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02 (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than December 31, 1999 or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which: (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the credit during the six-month period following the period covered by said report; (A) describes physical progress in the Project implementation, both cumulative and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and sets forth the status of procurement under the project and the expenditures under the contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report. Upon completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03 The Borrower shall issue, through its Ministry of Education, standards for accreditation of medical schools based on conditions and criteria satisfactory to the Association not later than October 1, 1999, and immediately thereafter initiate the process of accreditation.

ARTICLE V

Additional Events of Suspension

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following event is specified, namely, that a situation has arisen which shall make it improbable that either the Program, or the Energy Sector Restructuring Program, or the Hospital Restructuring Program, or a significant part of any of said programs, will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01

(b) of the General Conditions:

(a) The Borrower has opened a Project Account A and Project Account B in a commercial bank with an initial deposit in local currency equivalent to at least \$50,000 each.

(b) The Borrower has established a financial management system for the Project, acceptable to the Association. The Borrower has appointed independent auditors for the Health PCU and PIU with experience and qualifications, under terms of reference acceptable to the Association.

Section 6.02. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
70, Irakli 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

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works under Part A of the Project	2,805,000	84%
(2) Goods:		100% of foreign expenditures, 100%
(a) under Part A of the Project	415,000	of local expendi- tures (ex-factory cost) and 80% of
(b) under Parts B, C, D and E of the Project	460,000	local expenditures for other items procured locally
(3) Consultants' services, training and study tours:		100% of foreign expenditures and 80% of local expenditures
(a) under Part A of the Project	1,685,000	
(b) under Part C.4 of the Project	670,000	
(c) under Parts B, C.1-3, D and E of the Project	4,890,000	
(4) Operating costs of the Health PCU	85,000	100%
(5) Operating costs of the PIU	70,000	100%
(6) Unallocated:		
(a) under Part A of the Project	560,000	
(b) under Parts B, C, D, and E	560,000	
TOTAL	12,200,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "operating costs of the Health PCU" means incremental operating

expenditures incurred by the Health PCU with respect to the implementation of Part A of the Project, including office supplies and equipment, staff salaries, utilities, vehicle maintenance, communications and audit costs, and office refurbishment.

(d) the term "operating costs of the PIU" means incremental operating expenditures incurred by the PIU with respect to the implementation of Parts B, C, D and E of the Project, including office supplies and equipment, staff salaries, utilities, vehicle maintenance, communications and audit costs, and office refurbishment.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) payments for expenditures under Category 1, unless an inventory of medical waste in the facilities to be privatized has been carried out and furnished to the Association a satisfactory action plan for the removal of such waste; and

(c) payments for expenditures under Category (3) (b) unless the Public Information Center has been legally re-established under the Office of the President with a charter satisfactory to the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) all contracts for works not exceeding \$500,000 equivalent with the exception of the first contract irrespective of its value; (b) goods under contracts not exceeding \$200,000 equivalent with the exception of the first contract irrespective of its value; (c) services provided by consulting firms for training under contracts not exceeding \$50,000 equivalent and contracts for all other activities not exceeding \$100,000; (d) services provided by individual consultants for training under contracts not exceeding \$50,000 equivalent; (e) study tours; and (f) incremental operating costs under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Accounts

1. The Borrower shall open and maintain in Dollars special deposit accounts: (a) Special Account A for the purposes of Part A of the Project; and (b) Special Account B for the purposes of Parts B, C, D and E of the Project; in a commercial bank or banks, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that a Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02(b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02(b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Accounts shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Accounts:

(a) if the Association determines at any time that any Project Management

Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for the respective Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the respective Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the respective Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the respective Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the respective Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Accounts will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the respective Special Account.

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

Annex A to SCHEDULE 1

Operation of Special Accounts When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 2 of this Annex, equivalent, in the case of the Special Account A to \$800,000, and in the case of the Special Account B to \$800,000; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to: (a) an amount equivalent to \$300,000 in the case of the Special Account A, until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal or exceed the equivalent of SDR 1,100,000; and (b) an amount equivalent to \$300,000 in the case of the Special Account B, until the aggregate amount of withdrawals from the Credit Account, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal or exceed the equivalent of SDR 1,100,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish

the Special Accounts shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposit into the Special Accounts at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Accounts such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Accounts for Eligible Expenditures. Each such deposit into the Special Accounts shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Accounts, once the total unwithdrawn amount of the Credit, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$2,000,000.

SCHEDULE 2

Description of the Project

The main objective of the Project is to support the implementation of key reform measures in the Borrower's economic reform program, including: (a) improving the balance between public and private sectors through technical assistance to increase private economic activities and to reform public sector entities and information systems; (b) improving the social sustainability of economic reforms; and (c) supporting the implementation of the Hospital Restructuring Program.

The Project consists of the following parts, subject to such modifications thereof as the Borrower may agree upon from time to time to achieve such objectives:

Part A: Hospital Restructuring and Financing of Health Care

(1) Hospital Consolidation

(a) Assistance in the establishment of the HRF through provision of advisory services, office equipment and furniture for the HRF, and financing minor civil works.

(b) Remodeling and equipping four (4) selected hospitals.

(c) Provision of technical assistance for development and implementation of human resources programs.

(d) Assistance in carrying out a public information campaign in support of the Hospital Restructuring Program.

(2) Hospital Operational Reform

(a) Provision of technical assistance and training for improving hospital governance, organization and management.

(b) Provision of technical assistance for improving equity of health care financing.

(3) Project Management

Provision of office equipment, furniture, training and logistical support to the Health PCU.

Part B: Private Sector Development

(1) Strategic Privatization of Large-Scale Enterprises

Provision of technical, financial and legal advisory services to assist in the privatization of two (2) telecommunication companies, and other state enterprises to be agreed upon between the Borrower and the Association.

(2) Regulatory Framework

Provision of technical assistance and training, and a limited amount of equipment to develop the regulatory capacity in the energy sector, port operations and such other sectors as agreed upon between the Borrower and the Association.

(3) Financial Sector

Provision to the NBG of: (a) long-term services of an adviser to assist NBG in the formulation of its monetary policies and strategic organization, (b) consultants' services to assist in the carrying out of the NBG's supervisory functions, and (3) equipment for its Supervision Department.

Part C: Public Sector Reform and Public Information

(1) Public Expenditures Management

Provision of technical assistance and equipment to relevant agencies of the Borrower to: (a) review the institutional framework for public expenditures planning, budgeting and execution; (b) review public expenditures priorities and develop public investment program; and (c) develop mechanisms to improve budget monitoring at the central and local levels.

(2) Public Procurement Reform

Provision of technical assistance, training and equipment to the Public Procurement Department of the Borrower's Ministry of Economy.

(3) Licensing Reform

Provision of technical assistance and equipment to the Ministry of Justice to implement a new licensing regime established by the Law on Licensing of 1999.

(4) Public Information/Education Campaign

Provision of technical assistance, training, equipment and materials to the Public Information Center of the Borrower.

Part D: Social Sustainability

(1) Poverty Monitoring/Targeting

Implementation of measures to improve poverty monitoring and the targeting of programs for the poor, including provision of technical and material support for: (a) the implementation of the on-going survey of Georgian households; (b) dissemination of poverty monitoring results; and (c) assessment of the vulnerability of benefit recipients.

(2) Work-Fare Option

Implementation of measures to assess the feasibility of work-fare options, including: (a) appraisal of the feasibility of a pilot work-fare scheme; (b) design of the key features and preparation of an implementation plan for such scheme; and (c) implementation of a pilot work-fare scheme and evaluation of its cost-effectiveness.

(3) Pension Reform

Provision of technical assistance to: (a) develop a pension strategy, including associated regulatory and institutional framework, (b) develop an information management system, including a database on the current stock of pensioners and introduction of a personal identification number/personal account; (c) develop actuarial modeling and establish a pension analysis unit, (d) support the introduction of international accounting standards in pension management, and (d) evaluate and improve disability certification.

Part E: Project Management

Provision of equipment, technical assistance and logistical support to the PIU.

* * *

The Project is expected to be completed by September 30, 2001.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 and revised in January and August 1996, September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines); and (b) the provisions of the following Parts of this Section.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Association member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for works shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each, and contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Prequalification

Bidders for works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(c) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than 500,000 equivalent per contract, up to an aggregate amount not to exceed the equivalent of \$540,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an amount not to exceed \$100,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

3. International Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$590,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$170,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with

such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for works estimated to cost the equivalent of \$500,000 or more, (ii) each contract for goods estimated to cost the equivalent of \$200,000 or more, and (iii) the first contract for works to be awarded in accordance with the provisions of Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first contract for goods to be awarded pursuant to the procedures under Part C.3 of this Section under Part A of the Project, and (ii) the first contract for goods to be awarded pursuant to the procedures under Part C.3 of this Section under any Part of the Project other than Part A, the following procedures shall apply:

(i) prior to the selection of any supplier, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract procured, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and in January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Association member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for the development of severance packages for medical personnel, pensions options, and re-training programs under Part A (1)(c) of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Single Source Selection

Services for carrying out training activities under the Project, and services for carrying out audit pursuant to Section 4.01 of this Agreement, which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more and each contract for the employment of consulting firms procured under the provisions of Part C, paragraph 4 of Section II to this Schedule estimated to cost the equivalent of \$50,000, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more and each contract for the employment of individual consultants procured under the provisions of Part C, paragraph 4 of Section II to this Schedule estimated to cost the equivalent of \$50,000, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. During the execution of the Project, the Borrower shall maintain the Health PCU under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, which shall be responsible for the implementation of Part A of the Project.

2. During the execution of the Project, the Borrower shall maintain the PIU under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, which shall be responsible for the implementation of Parts B, C, D and E of the Project.

3. The Borrower 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 September 30, 2000, 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, by November 30, 2000 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.

4. Not later than March 30, 2000, the Borrower shall:

(a) legally establish the HRF;

(b) approve the composition of the Board of the HRF, acceptable to the Association; and

(c) approve an Operational Manual, satisfactory to the Association.

