

CONFORMED COPY

CREDIT NUMBER 2941 GE

Development Credit Agreement  
(Agricultural Development Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 14 , 1997

CREDIT NUMBER 2941 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 14, 1997, between GEORGIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Borrower intends to contract from International Fund for Agricultural Development (IFAD) a loan (the IFAD Loan) in an amount of \$6,000,000 to assist in financing part of the Project on the terms and conditions set forth in an agreement (the IFAD Loan Agreement) to be entered into between the Borrower and IFAD; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"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 member of the Bank 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."

- (c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be cancelled.

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) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 22, 1995 and December 20, 1995 between the Borrower and the Association;
- (b) "Special Account" means the account referred to in Section 2.02(b) of this Agreement;
- (c) "NBG" means the National Bank of Georgia;
- (d) "MOF" means the Borrower's Ministry of Finance;
- (e) "PCU" means the Project Coordinating Unit, established pursuant to an Order of the Ministry of Finance of Georgia No. 24, dated July 2, 1996 within the Borrower's Ministry of Agriculture and Food Industries for the purpose of coordinating and overseeing the activities under the Project;
- (f) "CEU" means the Credit to Enterprises Unit, established within PCU to monitor the carrying out of Part A of the Project;

(g) "CUDC" means the Credit Union Development Center, established within PCU to monitor the carrying out of Part B of the Project, to promote the development of credit unions in Georgia and to supervise their financial viability or any successor thereof;

(h) "CUDC Operations Manual" means the operations manual of CUDC to be adopted in conformity with the provisions of Section 3 (b) of Schedule 4 to this Agreement;

(i) "Participating Bank" means any commercial banking institution which complies with the criteria set forth in Section I of Schedule 6 to this Agreement and with which the Borrower has entered into a Participating Bank Subsidiary Loan Agreement;

(j) "Participating Bank Subsidiary Loan Agreement" means any agreement entered into by the Borrower and a Participating Bank pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time and such term includes all schedules to such Participating Bank Subsidiary Loan Agreement;

(k) "Subsidiary Loan" means any loan to be provided out of the proceeds of the Credit to the Participating Banks under a Participating Bank Subsidiary Loan Agreement;

(l) "Sub-loan" means a loan made or proposed to be made by a Participating Bank out of the proceeds of the Credit for a Sub-project under Part A of the Project;

(m) "Sub-project" means a specific development project to be carried out by a Beneficiary Enterprise under Part A of the Project utilizing the proceeds of a Sub-loan;

(n) "Beneficiary Enterprise" means any enterprise which is majority owned by individuals or private entities and which is engaged in economic activities primarily related to the rural sector, including enterprises engaged in production in rural areas, the processing of primary products from rural areas, or the supply of services to rural areas, and to which a Participating Bank proposes to make or has made a Sub-loan;

(o) "Lari" means the currency of the Borrower;

(p) "IAS" means the International Accounting Standards, issued by the International Accounting Standards Committee, London;

(q) "LIBOR" means the London interbank offered rate for six-month deposits of Dollars;

(r) "Grant" means the grants made by the Borrower to a CU under Part B.1 of the Project;

(s) "CU" means a rural credit union, registered with CUDC;

(t) "Administrative Bank" means the commercial banking institution which complies with the criteria set forth in Section I of Schedule 6 to this Agreement and with which the Borrower has entered into an Administrative Agreement for the purposes of Part B.2 of the Project;

(u) "Administrative Bank Agreement" means the agreement entered into by the Borrower through CUDC and the Administrative Bank pursuant to Section 3.01 (d) of this Agreement as the same may be amended from time to time and such term includes all schedules to such Administrative Bank Agreement; and

(v) "CU Subsidiary Loan Agreement" means any agreement entered into by the Borrower and a CU pursuant to the provisions of Section 3 (f) of Schedule 4 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 ten million four hundred thousand Special Drawing Rights (SDR 10,400,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Participating Bank on account of withdrawals made by a Beneficiary Enterprise under a Subloan under Part B.1 of the Project and amounts paid (or, if the Association shall so agree, amounts to be paid) by the Credit Union on account of withdrawals made by a member of a Credit Union under Part B.2 of the Project to meet the reasonable cost of goods and services required for the Investment Sub-project and the productive activity financed, in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the Grants and the reasonable cost of goods and services required for Parts B, C and D of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in NBG on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be April 30, 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 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 January 1 and July 1 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 January 1 and July 1 commencing July 1, 2007 and ending January 1, 2032. Each installment to and including the installment payable on January 1, 2017 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 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 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 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 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 financial and administrative 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 Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and the provisions set forth in Schedule 6 to this Agreement.

(c) For the purpose of carrying out Part A of the Project, the Borrower shall make available to Participating Banks, the equivalent of the proceeds of the Credit allocated from time to time to Category (4) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under Participating Bank Subsidiary Loan Agreements to be entered into between the Borrower and the Participating Banks providing for Subsidiary Loans under terms and conditions satisfactory to the Association which shall include, without limitation, those set forth in Section II of Schedule 6 to this Agreement.

(d) For the purposes of making available funds to members of CUs for productive purposes under Part B.2 of the Project, the Borrower shall: (i) through MOF and CUDC enter into CU Subsidiary Loan Agreements in conformity with the provisions of Section 3 (f) of Schedule 4 to this Agreement; and (ii) through CUDC enter into an agreement (the Administrative Agreement) with a commercial banking institution which complies with the criteria set forth in Section 1 of Schedule 6 to this Agreement (the Administrative Bank) on terms and conditions as shall be consistent with the CUDC Operations Manual and acceptable to the Association, and which shall provide: for the

obligation of the Administrative Bank to keep the accounts of the CUs in respect of all CU Subsidiary Loan Agreements to the CUs under Part B.2 of the Project.

(e) The Borrower shall exercise its rights under the Participating Bank Subsidiary Loan Agreements and the Administrative Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Participating Bank Subsidiary Loan Agreements, the Administrative Agreement or any provisions thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the 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 this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. The Borrower shall take all necessary measures to ensure that the cost of the activities under Part C of the Project shall be fully recovered through collection of registration fees.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles 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, 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 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

(iv) 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.

#### ARTICLE V

##### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) The IFAD Loan Agreement shall have failed to become effective by June 30, 1997, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to subparagraph (b) (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the IFAD Loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the IFAD Loan Agreement; or

(B) the IFAD Loan shall have become due and payable prior to the maturity thereof.

(ii) Subparagraph (a) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(d) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 (b) (i) (B) of this Agreement shall occur, subject to the proviso of Section 5.01 (b) (ii).

#### ARTICLE VI

##### Termination

Section 6.01. 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 Str.  
380062 Tbilisi  
Georgia

Telex:

212 348 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/ Anil Sood

Acting Regional Vice President  
Europe and Central Asia

#### SCHEDULE 1

##### Withdrawal of the Proceeds of the Credit

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) Goods for Part B.3 C and D of the Project	750,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost)



			and 80% of local expenditures for other items procured locally
(2)	Consultants' services and training	1,740,000	100%
(3)	Land survey	700,000	100% of foreign expenditures and 90% of local expenditures
(4)	Sub-loans under Part A of the Project	5,550,000	100% of amounts disbursed by the Participating Bank
(5)	Grants under Part B.1 of the Project	140,000	100% of amounts disbursed by the Borrower
(6)	Loans under Part B.2 of the Project	610,000	100% of amounts disbursed by the Borrower
(7)	Refunding of Project Preparation Advance	350,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(8)	Operating costs of PCU	210,000	100%
(9)	Unallocated	350,000	
	TOTAL	10,400,000 =====	

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; and

(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.

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 made for expenditures under Category (4) of this Schedule unless: (i) the respective Participating Bank Subsidiary Loan Agreement has been signed by the Borrower and the respective Participating Bank; and (ii) the Association has received a legal opinion, satisfactory to the Association of counsel acceptable to the Association that the respective Participating Bank Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Participating Bank and is legally binding upon the Borrower and the respective Participating Bank; (c) payments made for expenditures under Category (3), unless the Land Registration Law has been enacted by the Parliament of the Borrower; and (d) payments made for expenditures under Categories (5) and (6) unless: (i) the CUDC has adopted the CUDC Operations Manual in accordance with the provisions of Section 3 (b) of Schedule 4 to this Agreement; and (ii) an Administrative Agreement has been signed between an Administrative Bank and the CUDC acceptable 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 goods under contract

costing less than \$200,000 and services under contracts with consultant firms costing less than \$100,000 equivalent each, and contracts with individual consultants costing less than \$50,000 equivalent each, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to increase agricultural productivity in Georgia by supporting the development of private sector farming and agro-processing.

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

#### Part A: Credit to Enterprises

1. The financing of specific development projects through Sub-loans to private enterprises.

#### Part B:

1. Provision of grants to rural credit unions (CUs) to finance their initial operations and administrative cost.

2. The financing of productive purposes through loans by CUs to their members.

3. Strengthening of CUDC through provision of technical assistance to assist in the development of rural credit unions, including a law applicable to credit unions and a permanent regulatory body, and monitoring of compliance of CUs with prudential regulations.

#### Part C: Land Registration

1. Carrying out of land surveys and title registration in Gardabani and Mtskheta regions; and, on a limited basis, in such other regions as approved by the Association.

2. Carrying out of aerial photography in selected parts of Georgia.

#### Part D: Agricultural Services

1. Carrying out of studies, including pilot operations, in respect of (i) the improvement of the collection of agricultural statistics; (ii) an improved research and extension system for privatized agriculture; (iii) improving the quality of agricultural exports; (iv) a socio-economic review to monitor the effects of land reform and land markets; (v) training for small-scale rural entrepreneurs; (vi) a depositors' insurance scheme for rural credit unions; (vii) the preparation of an irrigation and soil conservation program; and (viii) other studies as may be deemed necessary, and approved by the Association.

2. A training program for a core team of policy makers on agricultural policy analysis in a market economy.

\* \* \*

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

## SCHEDULE 3

### Procurement and Consultants' Services

#### Section I. Procurement of Goods

##### Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

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

Part C: Other Procurement Procedures

National Competitive Bidding

1. Contracts for land surveys under Part C of the Project estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

International Shopping

2. Goods for Part C of the Project and the PCU estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 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.

Commercial Practices

3. Contracts for the procurement of goods and works under Part A of the Project estimated to cost the equivalent of less than \$1,000,000 per contract may be awarded in accordance with the established commercial practices of the Beneficiary Enterprise, due account being taken also of other relevant factors such as time of delivery and efficiency and reliability thereof and availability of maintenance and spare parts, provided, however, that such commercial practices include obtaining quotations from more than one supplier or contractor.

Part D: Review by the Association of Procurement Decisions

1. Prior Review

With respect to all contracts procured under the provisions of Part B of this Section, the first two contracts procured under the provisions of Part C.1, the first three contracts procured under the provisions of Part C.2 of this Section and each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. 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 Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals,

evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Association; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 4

##### Implementation Program

1. For the purposes of overall coordination of Project execution, the Borrower shall maintain at all times during the execution of the Project the PCU which shall be headed by a full-time director, whose qualifications and experience shall be satisfactory to the Association, and who shall be assisted by suitably qualified staff in adequate numbers.

2. The Borrower shall maintain at all times during the execution of the Project the CEU which shall be headed by an individual whose qualifications and experience shall be satisfactory to the Association and who shall be assisted by suitably qualified staff in sufficient numbers, and assure adequate authority of the CEU to:

- (i) monitor the performance of the Participating Banks under the Bank Subsidiary Loan Agreements;
- (ii) monitor the continued compliance of the Participating Banks with the eligibility criteria set forth in Section I of Schedule 6 to this Agreement;
- (iii) monitor the records and accounts in respect of Part A of the Project to be maintained in accordance with the provisions of Section 4.01 (a) of this Agreement; and
- (iv) prepare an environmental impact assessment manual and monitor the compliance of Beneficiary Enterprises with environmental criteria specified in the respective Sub-Loan Agreements.

3. For the purpose of carrying out Part B of the Project, the Borrower shall:

(a) maintain CUDC which shall be headed by an individual whose experience and qualifications shall be satisfactory to the Association and assisted by suitably qualified staff in sufficient numbers;

(b) through CUDC prepare and adopt the CUDC Operations Manual satisfactory to the Association, specifying: (i) the procedures to be followed by CUDC in respect of Part B of the Project; (ii) registration procedures applicable to CUs; (iii) the terms and conditions of the Grants to be provided under Part B.1 of the Project; (iv) the terms and conditions of the loans to be provided by the Borrower to CUs for the purpose of onlending to the members of the respective CU under Part B.2 of the Project, including the principal terms of the Administration Agreement; (v) the terms and conditions of the loans to be made by the CUs to their members; and (vi) the principal provisions of an operations manual to be adopted by the CUs prior to their registration with CUDC; and (vii) the procedures to be followed in respect of the insurance fund for members of CUs;

(c) cause CUDC to carry out its operations in accordance with the CUDC Operations Manual;

(d) not amend the CUDC Operations Manual, unless such amendment was previously approved by the Association;

(e) cause CUDC to enter into participation agreements with the CUs for the purpose of making available the proceeds of the Credit allocated from time to time to

Category (5) of the table set forth in Section 1 of Schedule 1 to this Agreement under Part B.1 of the Project and specifying the terms of the Grants to the CUs which shall be consistent with the CUDC Operations Manual and which shall include that the amount of \$2,000, representing the initial equity contribution to be deposited with the Administrative Bank to serve as insurance fund, shall be used for loans to members of the CU under the same terms and conditions as the loans under Part B.2 of the Project, once the total share equity of the respective CU has reached \$25,000 equivalent; and

(f) enter under the signature of MOF which retains independent veto power and CUDC into subsidiary loan agreements (CU Subsidiary Loan Agreements) with registered CUs which also have entered into an arrangement with the Administrative Bank for the purpose of account keeping in respect of Part B.2 of the Project, for the purpose of making available the proceeds allocated from time to time to Category (6) of the table set forth in Section 1 of Schedule 1 to this Agreement on such terms and conditions as shall be consistent with the CUDC Operations Manual.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Schedule 7 to this Agreement, 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 April 1, 1999 and April 1, 2002, reports 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 June 1, 1999 and June 1, 2002, respectively, 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.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 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 be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account 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 Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) 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 paragraph 4 of this Schedule 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 Account 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 Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, 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 allocated to the eligible Categories 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion

thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 6

##### Section I: Eligibility Criteria for Participating Banks

1. A Participating Bank Subsidiary Loan Agreement may be entered into by the Borrower with a commercial banking institution, which fulfills the following requirements:

(a) an audit has been prepared by internationally recognized auditors in conformity with IAS, covering its activities over one full year of operation, such audit to include a portfolio review;

(b) it has sound financial policies, in particular in respect of credit administration and asset and liability management, and a capital structure conforming with all requirements issued by NBG;

(c) it has obtained a certificate issued by the NBG stating that: (i) it has a valid banking license; (ii) that NBG is not aware of any criminal proceeding pending against it or any shareholder with voting rights in excess of 10% of the total voting rights; and (iii) that it is in compliance with all relevant banking laws and regulations;

(d) it has total assets, as defined in accordance with IAS, equivalent to at least \$2 million;

(e) it has a minimum equity capital, as defined in accordance with IAS, equivalent to no less than \$500,000;

(f) it has compliance with an exposure limit to any one borrower as a percentage of its equity capital, as defined in accordance with IAS, of no more than 25%; and

(g) it has compliance with an aggregate exposure limit to insiders (defined as members of the governing bodies of the bank, employees in a management position and shareholders with voting rights in excess of 10%) of no more than 60% of the equity capital, as defined in accordance with IAS.

##### Section II: Principal Terms and Conditions of Participating Bank Subsidiary Loan Agreements

Except as the Borrower and the Association shall otherwise agree, the following principal terms and conditions shall be included in Participating Bank Subsidiary Loan Agreements, pursuant to Section 3.01 (i) of this Agreement:

###### A. Terms

(a) The Subsidiary Loan shall be denominated in Dollars and/or Lari depending on the currency of the underlying Sub-loan;

(b) Principal amount: same as aggregate amounts disbursed from the underlying Sub-loans;

(c) Interest rate for Dollar denominated Subsidiary Loans: LIBOR at the time of signing of the respective Subsidiary Loan and adjusted semi-annually, plus a spread of 3.0 percentage points;

(d) Interest rate for Lari denominated Subsidiary Loans: a variable interest rate adjusted quarterly, equal to the average weighted interest rate of 30 day funds auctioned by the NBG during the three month period preceding signature of the respective Participating Bank Subsidiary Loan Agreement and each subsequent quarterly adjustment;

(e) Term: same as Sub-loans plus no more than three months;

(f) Interest payments: semi-annually for both Dollar and Lari denominated loans; and

(g) Foreign exchange risks: in the case of Dollar-denominated Subsidiary Loans borne by the Participating Bank.

#### B. Conditions of Participating Bank Subsidiary Loan Agreements

1. Each respective Participating Bank Subsidiary Loan Agreement shall contain provisions pursuant to which each respective Participating Bank shall undertake to:

(a) (i) make Sub-loans to Beneficiary Enterprises on the terms and conditions set forth in Section III of this Schedule; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Association, and achieve the purposes of Part A of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Bank and the Borrower;

(b) (i) exchange views with, and furnish all such information to the Association or the Borrower, as may be reasonably requested by the Association or the Borrower, with regard to the progress of its activities under Part A of the Project, the performance of its obligations under its respective Participating Bank Subsidiary Loan Agreement, and other matters relating to the purposes of Part A of the Project; and (ii) promptly inform the Association and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Participating Bank Subsidiary Loan Agreement;

(c) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association; and (iii) furnish to the Association and the Borrower, as soon as available, but in any case not later than three months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Association or the Borrower shall have reasonably requested.

#### Section III: Procedures for Processing in respect of Sub-loans, Terms and Conditions of the Sub-loans, and Eligibility Criteria for Sub-loans

1. No expenditures required for a Sub-project shall be eligible for financing out of the proceeds of the Credit unless the conditions set forth in Section 3 (d) have been fulfilled and: (a) the Sub-loan for such Sub-project shall have been approved by the Association and such expenditures shall have been made not earlier than 180 days prior to the date on which the Association shall have received the application and information required under paragraph 2 (a) of this Section in respect of such Sub-loan; or (b) the Sub-loan for such Sub-project shall be in an amount less than \$500,000 (free-limit Sub-loan) for which the Association has authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than



one hundred eighty (180) days prior to the date on which the Association shall have received the request and information required under paragraph 2 (b) below, provided however that the first five (5) Sub-loans proposed by each of the Participating Banks shall be subject to the Association's approval on the basis of information provided in accordance with the provisions of Section 2 (a) of this Section.

2. (a) When presenting a Sub-loan other than a free-limit Sub-loan to the Association for approval, the Participating Bank shall furnish to the Association an application, in a form satisfactory to the Association, together with: (i) a description of the Beneficiary Enterprise; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit and the expected financial rate of return from the investment; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization thereof; (iv) any such other information as the Association shall reasonably request; and (v) the certification by the proper authorities that an environmental assessment has been carried out and has been found acceptable.

(b) Each request by a Participating Bank for Sub-loan authorization in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary Enterprise and the Sub-project, including a description of the expenditure proposed to be financed out of the proceeds of the Credit and the expected financial rate of return and the results of the environmental assessment; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization thereof.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before April 30, 2001.

3. (a) Sub-loans shall finance no more than 70% of aggregate Sub-project cost, the Beneficiary Enterprise to contribute at least 10% out of its own resources, and finance Sub-projects only whose (i) financial projections demonstrate that the debt service coverage ratio will be at least 1.3 over the life of the Sub-project, calculated on the basis of the Beneficiary Enterprises' total debt; (ii) financial rate of return shall be no less than 15%; and (iii) the projected cash flow is adequate to meet the debt service.

(b) The Sub-loans shall be made at market rates, shall have a final maturity of no less than one (1) year and no more than five (5) years, shall have a maximum grace period of one year in case of final maturities of three (3) years or more and a grace period of up to six (6) months in case of final maturities of less than three (3) years unless otherwise approved by the Association. The foreign exchange risk in the case of Dollar denominated Sub-loans shall be borne by the Beneficiary Enterprises.

4. Sub-loans shall be made on terms whereby the Participating Bank making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Association, including the right to:

(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economical, financial, environmental and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose; and in conformity with the measures defined in the environmental assessment.

(b) require that the goods to be financed out of the proceeds of the Loan to be procured in accordance with the provisions of Schedule 4 to this Agreement, and use such goods exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Association or the Borrower if the Association or the Borrower shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require the Beneficiary Enterprise to take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practices, including insurance to cover hazards incident to the acquisition,

transportation and delivery of goods financed out of the proceeds of the Sub-loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary Enterprise to replace or repair such goods;

(e) require each Beneficiary Enterprise to: (i) have its financial statements for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors; (ii) furnish to the Participating Bank, as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the Participating Bank shall have reasonably requested;

(f) obtain all such information as the Association or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary Enterprise to the use of the proceeds of the Sub-loan upon failure by such Beneficiary Enterprise to perform its obligations under its contract with the Participating Enterprise.

