

CONFORMED COPY

CREDIT NUMBER 3502 GE

Development Credit Agreement

(Electricity Market Support Project)

between

GEORGIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 18, 2001

CREDIT NUMBER 3502 GE

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 18, 2001, between GEORGIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower has furnished to the Association a letter (the "Letter of Electricity Sector Policy"), dated March 27, 2001, describing a program of actions, objectives and policies designed to further the reform of the Borrower's energy sector (the Program), declaring the Borrower's commitment to the execution of the program, and defining as an integral part of the Program, a specific set of investments constituting a project to be undertaken in conjunction with the execution of the Program, as described in Schedule 2 to this Agreement;

WHEREAS (B) 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;

WHEREAS (C) Parts B, C, E and F of the Project will be carried out by Electrodispetcherizatsia-2000 (Electrodispetcherizatsia), a limited liability company established and operating under the laws of the Borrower, and Parts A, C, D, E and F of the Project will be carried out by Electrogadatsema, a state joint-stock company established and operating under the laws of the Borrower, all with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Electrodispetcherizatsia and Electrogadatsema the proceeds of the Credit as provided

for in Article II of in this Agreement;

WHEREAS (D) the Borrower intends to contract from Kreditanstalt für Wiederaufbau (KfW) a loan in an amount equivalent to twenty-five million Deutsche Marks (DM 25,000,000) (the KfW Loan) to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and KfW (the KfW Loan Agreement);

WHEREAS (E) the Borrower intends to contract from the European Bank for Reconstruction and Development (EBRD) a grant in an amount of one million euro (1,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the EBRD Grant Agreement); and

WHEREAS (F) 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, in the ED Project Agreement of even date herewith between the Association and Electrodispetcherizatsia, and in the EG Project Agreement of even date herewith between the Association and Electrogadatsema;

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 October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all countries."; and

(b) 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 have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Electrodispetcherizatsia" or "ED" means "Electrodispetcherizatsia-2000", a limited liability company established under the law of the Borrower pertaining to limited liability companies and operating pursuant to its statutes dated March 6, 2000, and licensed to perform dispatch of the high voltage electricity transmission system in the territory of the Borrower;

(b) "Electrogadatsema" or "EG" means a joint stock company established under the law of the Borrower pertaining to joint-stock companies and operating pursuant to its statutes dated September 2, 1999, and licensed to operate the high voltage

electricity transmission system in the territory of the Borrower;

(c) "Eligible Categories" means Categories (1)(a) through (1)(d) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of the ED Special Account; and Categories (2)(a) through (2)(d) set forth in said table in respect of the EG Special Account;

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

(e) "Energy Sector Adjustment Program" means the program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's energy sector, described in the letter dated May 14, 1999, from the Borrower to the Association, on the basis of which the Association, by an agreement dated June 30, 1999, agreed to make available to the Borrower a credit in the amount of SDR 18,100,000 (Credit No. 3266-GE);

(f) "Environmental Management Plan" means the plan, satisfactory to the Association, prepared and adopted by the Borrower, describing the environmental mitigation, monitoring and institutional measures for the Project;

(g) "Letter of Electricity Sector Policy" means the letter dated March 27, 2001, from the Borrower to the Association, describing a program of actions, objectives and policies designed to further the reform of the Borrower's energy sector as referred to in the Preamble to this Agreement;

(h) "Management Contract" means any of the performance-based management contracts to be entered into with an independent, private sector service provider pursuant to the provisions of the Program, for management of the operations of the Wholesale Electricity Market, Electrogadatsema, or Electrodispetcherizatsia;

(i) "MOF" means the Borrower's Ministry of Finance;

(j) "MOFE" means the Borrower's Ministry of Fuel and Energy;

(k) "Project Accounts" means the accounts in the currency of the Borrower referred to in Section 4.03 of the EG Project Agreement and Section 4.03 of the ED Project Agreement;

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

(m) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on July 17, 2000, and on behalf of the Borrower on August 1, 2000;

(n) "PSO" means the project service organization, established as an entity under public law, for the purposes of the Project, by MOF and MOFE;

(o) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(p) "Subsidiary Loan Agreements" means the agreements to be entered into between the Borrower and Electrodispetcherizatsia and Electrogadatsema pursuant to Sections 3.01 (a) and (b) of this Agreement, respectively, as the same may be amended from time to time; and

(q) "Wholesale Electricity Market" means the association of electricity generating companies, electricity distribution companies, Electrogadatsema, Electrodispetcherizatsia, and other participants in the wholesale electricity market, established according to the Decree of the President of the Borrower on the Establishment of the Wholesale Electricity Market, dated July 1, 1999.

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 twenty-one million one hundred thousand Special Drawing Rights (SDR 21,100,000).

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 expenditures made (or, if the Association shall so agree, to be made) 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.

(b) The Borrower may, for the purposes of each of (i) Parts A, C, D, E and F of the Project, in respect of the activities of Electrogadatsema under the EG Project Agreement (the EG Special Account); and (ii) Parts B, C, E and F of the Project, in respect of the activities of Electrodispetcherizatsia under the ED Project Agreement (the ED Special Account), respectively, open and maintain in dollars a separate special deposit account in a bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 6 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 December 31, 2005, 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 June 15 and December 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 June 15 and December 15 commencing June 15, 2011 and ending December 15, 2040. Each installment to and including the installment payable on December 15, 2020, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (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 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Electrodispetcherizatsia and Electrogadatsema to perform, with the assistance of PSO, in accordance with the provisions of the ED Project Agreement and EG Project Agreement, respectively, all the obligations of Electrodispetcherizatsia and Electrogadatsema therein set forth, shall take or cause to be taken the actions provided for in the Implementation Program set forth in Schedule 4 to this Agreement, and all other action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Electrodispetcherizatsia and Electrogadatsema to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend a portion of the proceeds of the Credit to Electrodispetcherizatsia under a subsidiary loan agreement (the ED Subsidiary Loan Agreement) to be entered into between the Borrower and Electrodispetcherizatsia, under terms and conditions which shall have been approved by the Association which shall include those set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend a portion of the proceeds of the Credit to Electrogadatsema under a Subsidiary Loan Agreement (the EG Subsidiary Loan Agreement) to be entered into between the Borrower and Electrogadatsema, under terms and conditions which shall have been approved by the Association which shall include those

set forth in Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the ED Subsidiary Loan 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 ED Subsidiary Loan Agreement or any provision thereof.

(e) The Borrower shall exercise its rights under the EG Subsidiary Loan 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 EG Subsidiary Loan Agreement or any provision thereof.

(f) 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.

Section 3.02. The Borrower shall maintain the Management Contracts in respect of Electrogadatsema, Electrodispetcherizatsia, and the Wholesale Electricity Market with independent, private sector service providers, satisfactory to the Association, throughout the Project implementation.

Section 3.03. The Borrower shall take all necessary measures to ensure that the Wholesale Electricity Market, Electrodispetcherizatsia and Electrogadatsema are able to meet their financial obligations as they fall due, including those under the Management Contracts.

Section 3.04. Except as the Association shall otherwise agree, procurement of the goods, works 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 3.05. 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 3.06. The Association and the Borrower hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of: (a) the activities of Electrogadatsema under Parts A, C, D, E and F of the Project shall be carried out by Electrogadatsema pursuant to Section 2.03 of the EG Project Agreement; and (b) the activities of Electrodispetcherizatsia under Parts B, C, E and F of the Project shall be carried out by Electrodispetcherizatsia pursuant to Section 2.03 of the ED Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting

such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Accounts 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 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, including a separate opinion by said auditors as to whether the Project Management reports or 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; 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out, or cause to be carried out, a time-bound action plan acceptable to the Association for the strengthening of the financial management system for the Project in order to enable the Borrower, not later than September 30, 2001, or such later date as the Association shall agree, to prepare, or cause to be prepared, quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (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;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the 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 cause PSO to implement the financial management system action plan by July 1, 2001, in accordance with the terms of reference agreed

with the Association.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) Electrodispetcherizatsia or Electrogadatsema shall have failed to perform any of their obligations under the respective Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Electrodispetcherizatsia or Electrogadatsema will be able to perform their obligations under the respective Project Agreement.

(c) Law of the Borrower of June 27, 1997, on Natural Gas and Electricity, as amended to the date of this Agreement, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Electrodispetcherizatsia or Electrogadatsema to perform any of their obligations under the respective Project Agreement.

(d) The KfW Loan Agreement shall have failed to become effective by December 31, 2001, 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.

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

(A) the right of the Borrower to withdraw the proceeds of any 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 agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) 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.

(f) a situation shall have arisen which shall make it improbable that the Program referred to in Paragraph (A) of the Preamble to this Agreement, or a significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraph (a) of Section 5.01 of this Agreement shall occur, and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower;

(b) the events specified in paragraphs (c) and (f) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (e) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e) (ii) of that Section.

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 taken the prior actions described in the Letter of Electricity Sector Policy satisfactory to the Association;

(b) Management Contracts shall have been entered into with independent, private sector service providers, selected pursuant to the provisions of Section II of Schedule 3 of this Agreement, for the purpose of providing services in connection with the operation of the Wholesale Electricity Market, Electrogadatsema, and Electrodispetcherizatsia;

(c) the Subsidiary Loan Agreements have been entered into between the Borrower and Electrogadatsema and Electrodispetcherizatsia, pursuant to Section 3.01 (b) and (c) of this Agreement, satisfactory to the Association, and the Association has received evidence satisfactory to it that the same are binding and valid according to their terms; and

(d) the Project Accounts have been opened, on terms and conditions satisfactory to the Association, and the Association has received evidence showing the deposit in the Project Accounts by Electrogadatsema and Electrodispetcherizatsia of amounts in the currency of the Borrower equivalent to \$150,000 and \$50,000, respectively, representing three months' estimated expenditures to be made under the Project.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreements have been duly authorized or ratified by Electrodispetcherizatsia and Electrogadatsema, respectively, and the same are legally binding upon Electrodispetcherizatsia and Electrogadatsema in accordance with their terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and Electrodispetcherizatsia and Electrogadatsema, respectively, and the same are legally binding upon the Borrower and Electrodispetcherizatsia and Electrogadatsema, respectively, in accordance with their terms.

Section 6.03. 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 SV
Facsimile: (995-32) 221-754
(995-32) 235-416

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)
Facsimile: (202) 477-6391

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

GEORGIA

By /s/ Zurab Nogaideli

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Tevfik Yaprak

Authorized Representative

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) Electrodispetcherizatsia | | |
| (a) Goods and equipment | 8,210,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 80% of local expenditures |
| (b) Management Services | 850,000 | 100% of foreign expenditures and |

| | | |
|--|------------|---|
| | | 80% of local expenditures |
| (c) Consultants' Services and Audit | 540,000 | 80% |
| (d) Incremental Operating Costs | 230,000 | 80% |
| (e) Unallocated | 1,100,000 | |
| (2) Electrogadatsema | | |
| (a) Goods and equipment | 5,450,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 80% of local expenditures |
| (b) Management Services | 2,230,000 | 100% of foreign expenditures, and 80% of local expenditures |
| (c) Consultants' Services and Audit | 850,000 | 80% |
| (d) Incremental Operating Costs | 160,000 | 80% |
| (e) Unallocated | 710,000 | |
| (3) Refunding of Project Preparation Advance | 770,000 | Amount due pursuant to Section 2.02 (c) of this Agreement |
| TOTAL | 21,100,000 | |

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 "Management Services" means services under management contracts for the transmission and dispatch companies under Part E of the Project; and

(d) the term "Incremental Operating Costs" means expenditures, as approved by the Association on the basis of budgets acceptable to the Association, with respect to the implementation of the Project by Electrodispetcherizatsia or Electrogadatsema on account of office supplies, utilities, office equipment, and salaries of staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; (b) in respect of payments made for expenditures under Categories (1)(a) and (2)(a) of the table set forth in paragraph 1 of this Schedule, until the Borrower has submitted evidence satisfactory to the Association demonstrating that the Borrower has privatized, or engaged an international contractor satisfactory to the Association to manage until privatization the following distribution companies: Kvemo Kartli, Shida Kartli, Samegrelo and Zemo Svaneti, Imereti, Guria, Mtskhleta-Mtraneti, Racha-Lechkhymi/Kvemo-Svaneti and Samtskhe-Javakheti.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) services for: (i) individuals costing

less than \$50,000 equivalent each; and (ii) firms costing less than \$100,000 equivalent each, and (c) incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve reliability and efficiency of electricity supply, and improve financial and corporate management in the wholesale electricity market.

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: Rehabilitation and Upgrading of Metering of Electricity Flows in the Transmission Network

Supply and installation of energy meters in the 110- to 500-kV transmission network, which would enable metering and recording of active and reactive electricity flows in the wholesale electricity market.

Part B: Rehabilitation and Upgrade of System Control

Supply and installation of hardware and software (including Remote Terminal Units (RTU) and the corresponding local data acquisition equipment at the power plants and transmission substations (110- to 500-kV network), System Control Data Acquisition (SCADA), and the Energy Management System (EMS) at the National Dispatch Center), to enable real time acquisition of operational information from the main facilities, analysis and monitoring of the system status at the National Dispatch Center, and control and dispatch of the power plants, load centers, and the transmission system.

Part C: Rehabilitation and Upgrade of Telecommunications

Supply and installation of communications equipment, serving the communication needs of the metering and dispatch.

Part D: Rehabilitation of Selected Transmission Substations

Rehabilitation of selected equipment at the Zestafoni transmission substation.

Part E: Management Contracts for the Wholesale Electricity Market and the Transmission and Dispatch Companies

Provision of services to manage the operations of (i) the Wholesale Electricity Market, and (ii) the transmission and dispatch companies.

Part F: Consultant Services for Project Implementation

Provision of engineering, procurement, project management services for engineering design, procurement and project implementation; consultants' services relating to electricity sector debt restructuring, for preparation of a transmission system environmental action plan, and for auditing the companies' and project financial statements and operating costs for PSO.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

1. 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 and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank 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 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for goods under Parts B and C of the Project shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Preference for domestically manufactured goods

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.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 per contract, up to an aggregate amount not to exceed \$500,000 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.

2. Direct Contracting

Spare parts which must be purchased from the original supplier to be compatible with existing equipment and costing less than \$200,000 equivalent in the aggregate may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 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

With respect to each contract awarded in accordance with the provisions of Section I, Part B of this Schedule, the first two contracts awarded in accordance with the provisions of Section I, Part C.1, and each contract awarded in accordance with the provisions of Section I, Part C.2 of this Schedule, the procedures set forth in paragraphs 2 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

Consultants' services, including the services of an independent private sector service provider under any Management Contract, 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 Association in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultant 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. Least-cost Selection

Services for the Project audits may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 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.

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, 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, 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 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. Not later than ninety (90) days before the beginning of each calendar year during the execution of the Project, the Borrower, through PSO, shall:

(ii) prepare and furnish to the Association a proposed annual work program and budget for the implementation of the Project during such year;

(ii) afford the Association a reasonable opportunity to review said proposed annual work program and Budget and exchange views with the Borrower; and

(iii) thereafter, carry out or cause to be carried out said annual work program and budget, as approved by the Association.

2. The Borrower shall submit to the Association, not later than 30 days after the end of each quarter, a quarterly progress report, in a format satisfactory to the Association, outlining progress made in the implementation of the Project, as well as the problems encountered and how they are being addressed.

3. The Borrower, through MOFE and PSO, in cooperation with the Association, shall: (a) carry out a mid-term review of the Project, no later than June 30, 2003, to evaluate the progress of the Project and to determine if there is a need for any revisions in the Project planning; and (b) following the mid-term review, act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the project, or to implement such other measures as may have been agreed upon between the Borrower and the Association in furtherance of the objectives of the Project.

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 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 within 60 days after the end of each calendar year 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 120 days after the end of each calendar year, 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 view on the matter.

SCHEDULE 5

Principal Terms and Conditions of the Subsidiary Loan Agreements

The Subsidiary Loan Agreements shall include the following principal terms and conditions:

1. The Sub-borrower shall repay to the Borrower the aggregate amount of the proceeds of the Credit withdrawn from the Credit Account, from time to time, for carrying out the Project (the Subsidiary Loan) over a period not to exceed twenty (20) years, including a grace period of five (5) years.
2. The Subsidiary Loan shall be denominated in United States dollars and repaid to the Borrower, at least semi-annually, in dollars or lari, at the official rate of exchange as determined by the National Bank of Georgia on the respective dates on which the proceeds of the Subsidiary Loan are repaid by the Sub-borrower.
3. The Sub-borrower shall pay interest on the principal amount of the Subsidiary Loan, withdrawn and outstanding from time to time, at a semiannual variable rate equal to the applicable rate for IBRD currency pool loans.
4. The Sub-borrower shall pay to the Borrower a portion of the applicable commitment charges payable under Section 2.04 of this Agreement, allocable to the part of the proceeds of the Credit relented but not withdrawn by the Sub-borrower.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) 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

(b) the term "Authorized Allocation" means: (i) in respect of the EG Special Account, an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Schedule; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$200,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 2,000,000; and (ii) in respect of the ED Special Account, an amount equivalent to \$400,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Schedule; provided, however, that unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$200,000, until the aggregate amount of withdrawals from the Credit Account of amounts allocated to said Special Account's Eligible Categories, plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall equal or exceed the equivalent of SDR 2,000,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any 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 Accounts;

(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 said Special Account's Eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, 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 said 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 said 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

