Project Agreement

(Transmission Grid Strengthening Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

GEORGIAN STATE ELECTROSYSTEM

Dated September 3, 2014
PROJECT AGREEMENT

Agreement dated September 3, 2014, entered into between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and the GEORGIAN STATE ELECTROSYSTEM ("Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of same date between Georgia ("Borrower") and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Parts A, B and D of the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity's Representative is the Chairman of the Management Board/Rehabilitation Manager of the Project Implementing Entity.
3.02. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391
Washington, D.C.

3.03. The Project Implementing Entity's Address is:

Georgian State ElectroSystem
2 Baratashvili Street
0105 Tbilisi Georgia

Facsimile:

995 322 983704
AGREED at Tbilisi, Georgia, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: HENRY KERAL

Title: REGIONAL DIRECTOR

GEORGIAN STATE ELECTROSYSTEM

By

Authorized Representative

Name: Sulikhan Lumbridze

Title: Chairman of the management board

Rehabilitation Manager
SCHEDULE

Execution of the Project Implementing Entity’sRespective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Operational Manual, and shall not assign, amend, abrogate or waive any provisions of the Operational Manual without prior approval of the Bank.

2. At all times during the implementation of the Project, the Project Implementing Entity shall maintain adequate resources and facilities, and professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Bank.

3. The Project Implementing Entity shall assist the Ministry of Energy and the Ministry of Environment and Natural Resources’ Protection in processing the procurement for Part C of the Project in accordance with implementation arrangements satisfactory to the Bank.

B. Anti-Corruption

The Project Implementing Entity shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the ESIA Report, ESMP, RPF and RAP(s), and shall not assign, amend, abrogate or waive the ESIA Report, ESMP, RPF and/or RAP(s) or any provision thereof, without prior approval of the Bank.

2. Notwithstanding the foregoing, prior to the issuance of the bidding documents for any contract for works under the Project, the Project Implementing Entity shall:

   (a) prepare an updated ESMP, if necessary in case of changes in the transmission lines location, satisfactory to the Bank, which shall be disclosed in accordance with the ESIA Report and Bank’s applicable policies; and
submit to the Bank for its prior approval: (i) the proposed design and site for said works and (ii) the proposed contract for said works to ensure that the provisions of the ESIA Report, the RPF and the ESMP are adequately included in said contract.

3. The Project Implementing Entity shall ensure that: (i) such works are carried out in accordance with the ESIA Report, RPF, ESMP and respective RAP; (ii) all necessary actions are taken to minimize, to the extent possible, any involuntary loss by Affected Persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently; (iii) all rights to land, usufructs or customary rights and other property are allocated or acquired, equitable compensation thereof is paid and resettlement is carried out in accordance with the principles and institutional procedures established in the RAP(s); (iv) Affected Persons are equitably compensated, resettled and rehabilitated in accordance with the RAP(s); (v) the implementation arrangements for resettlement, including compensation, relocation and rehabilitation of Affected Persons are documented; and (vi) the implementation, monitoring and evaluation of the RAP(s) is completed and reported in a manner satisfactory to the Bank.

4. The Project Implementing Entity shall not commence any works for a specific Project site requiring resettlement and/or land acquisition under the Project until the respective RAP is fully implemented.

5. The Project Implementing Entity shall ensure that transmission lines built under the Project will not encroach upon any specially protected natural areas.

6. The Project Implementing Entity shall establish and implement, throughout the Project implementation, an easily accessible grievance redress mechanism, acceptable to the Bank, to address feedback and grievances relating to the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower and the Bank not later one month after the end of the period covered by such report.
B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall have its Financial Statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

Section IV. Financial Covenants

1. Except as the Bank shall otherwise agree, the Project Implementing Entity shall maintain a ratio of current assets to current liabilities of not less than one (1).

2. Before December 31 in each of its fiscal years, the Project Implementing Entity shall, on the basis of forecasts prepared by the Project Implementing Entity and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (1) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

3. If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (1) for the Project Implementing Entity's fiscal years covered by such review, the Project Implementing Entity shall promptly take all necessary measures satisfactory to the Bank in order to meet such requirements.

4. For the purposes of this Section:

(a) The term “current assets” means cash, all assets which could in the ordinary course of business be converted into cash within twelve months,
including account receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.

(b) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(c) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(d) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.