

EXECUTION COPY

(Operation Number 37801)

LOAN AGREEMENT

(Borjomi Water Project)

between

GEORGIA

and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 1 December 2008

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LOAN AGREEMENT

AGREEMENT dated 1 December, 2008 between GEORGIA (the "Borrower") represented by the Ministry of Finance of Georgia (Ministry of Finance) and EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank").

PREAMBLE

WHEREAS, the Bank has been established to provide financing for specific projects to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics;

WHEREAS, the Borrower intends to implement the Project as described in Schedule 1 which is designed to assist in the improvement of water supply and waste water services in the Borjomi Municipality in Georgia;

WHEREAS, the Project will be carried out by "Borjomis Tskalsaden-Kanalizatsiis Meurneoba" Ltd. (the "Project Entity"), a limited liability company organised and existing under the laws of Georgia and owned by the Ministry of Economic Development of Georgia (Ministry of Economic Development) on behalf of the Borrower;

WHEREAS, the Borrower and the Project Entity have designated the Municipal Development Fund of Georgia ("MDF") as the Project Implementation Agency (as defined below);

WHEREAS, the Borrower, the Borjomi Municipality and the Project Entity have requested assistance from the Bank in financing the Project;

WHEREAS, pursuant to the Project Support Agreement (as defined below), the Ministry of Economic Development and the Borjomi Municipality have undertaken to provide the Project Entity with the necessary support to successfully implement the Project;

WHEREAS, the Bank is in the process of arranging technical cooperation funds on a grant basis to assist in implementing certain parts of the Project;

WHEREAS, Millennium Challenge Georgia ("MCG") will provide a grant in the amount of USD 8,800,000 to assist in the financing of the Project, subject to the terms and conditions to be set forth in an agreement between MDF and MCG (the "Millennium Challenge Grant Agreement");

WHEREAS, the European Union will provide a grant in the amount of EUR 800,000 to assist in the financing of the Project, subject to the terms and conditions to be set forth in an agreement between the European Union and the Bank (the "EU Grant Agreement");

WHEREAS, the Bank has agreed on the basis of, *inter alia*, the foregoing to make a loan to the Borrower in the amount of EUR 1,500,000, subject to the terms and conditions set forth or referred to in this Agreement and in the project agreement dated the date hereof between the Project Entity and the Bank (the "Project Agreement" as defined in the Standard Terms and Conditions).

NOW, THEREFORE, the parties hereby agree as follows:

ARTICLE I - STANDARD TERMS AND CONDITIONS; DEFINITIONS

Section 1.01. Incorporation of Standard Terms and Conditions

All of the provisions of the Bank's Standard Terms and Conditions dated 1 October 2007 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications (such provisions as so modified are hereinafter called the "Standard Terms and Conditions").

(a) Section 3.05 of the Standard Terms and Conditions shall, for purposes of this Agreement, be modified to read as follows:

"Section 3.05. Commitment Charge and Front-End Commission

The Borrower shall pay to the Bank a commitment charge at the rate specified in the Loan Agreement, payable on the total of the Available Amount plus any amount of the Loan that is subject to a Reimbursement Commitment and is not yet drawn down, provided that the Commitment Charge payable on the amount of the Loan subject to an unconditional Reimbursement Commitment shall be 0.5% per annum greater than the rate of the Commitment Charge specified in the Loan Agreement. The Commitment Charge shall accrue from the date one hundred and twenty (120) days after the date of the Loan Agreement or, in the case of Commitment Charge payable on the amount of the Loan subject to an unconditional Reimbursement Commitment, from the date of issuance of such unconditional Reimbursement Commitment, and shall accrue and be calculated on the same basis as interest under Section 3.04(b)(ii). The Commitment Charge shall be payable on each Interest Payment Date (even though no interest may be payable on such date) commencing on the first Interest Payment Date following the Effective Date."

Section 1.02. Definitions

Wherever used in this Agreement (including the Preamble and Schedules), unless stated otherwise or the context otherwise requires, the terms defined in the Preamble have the respective meanings given to them therein, the terms defined in the Standard Terms and Conditions have the respective meanings given to them therein and the following terms have the following meanings:

"Borrower's Authorised Representative" means the Ministry of Finance of Georgia and any person duly authorised by the Minister of Finance on behalf of the Borrower and duly notified to the Bank.

"Corporate Development and City Support Programme" or "CDCSP" means a programme designed to provide support (i) to the Project Entity to enhance its financial, operational and managerial performance and (ii) to the Borjomi Municipality to facilitate its compliance with its obligations set forth in the Project Support Agreement.

"Fiscal Year" means the Borrower's fiscal year commencing on 1 January of each year.

"GEL" means the lawful currency of Georgia.

"On-Lending and Guarantee Agreement" means the on-lending and guarantee agreement to be entered into among the Project Entity (as borrower), the Borjomi Municipality (as guarantor) and the Borrower (as lender) pursuant to Section 3.01(a), in form and substance satisfactory to the Bank, as such on-lending and guarantee agreement may be amended from time to time.

"Priority Investment Programme" or "PIP" means the investment programme for the Project which includes the financing of the municipal water system in the Borjomi Municipality.

"Project Implementation Agency" or "PIA" means the project implementation agency nominated by the Borrower for appointment by the Project Entity to assist the Project Entity in the implementation and administration of the Project.

"Project Implementation Plan" means the project implementation plan attached as Schedule 1 to the Project Agreement.

"Project Support Agreement" means the agreement dated on or about the date hereof between the Bank, Ministry of Economic Development

and the Borjomi Municipality providing for certain support undertakings by Ministry of Economic Development and the Borjomi Municipality, as such agreement may be amended from time to time.

"Statutes"

means the founding act of the Project Entity.

Section 1.03. Interpretation

In this Agreement, a reference to a specified Article, Section or Schedule shall, except where stated otherwise in this Agreement, be construed as a reference to that specified Article or Section of, or Schedule to, this Agreement.

ARTICLE II - PRINCIPAL TERMS OF THE LOAN

Section 2.01. Amount and Currency

The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of EUR 1,500,000.

Section 2.02. Other Financial Terms of the Loan

- (a) The Minimum Drawdown Amount shall be EUR 100,000.
- (b) The Minimum Prepayment Amount shall be EUR 200,000.
- (c) The Minimum Cancellation Amount shall be EUR 200,000.
- (d) The Interest Payment Dates shall be 20 May and 20 November of each year.
- (e) (1) The Borrower shall repay the Loan in 24 equal (or as nearly equal as possible) semi-annual instalments on 20 May and 20 November of each year, with the first Loan Repayment Date being 20 November 2011 and the last Loan Repayment Date being 20 May 2023.

(2) Notwithstanding the foregoing, in the event that (i) the Borrower does not draw down the entire Loan amount prior to the first Loan Repayment Date specified in this Section 2.02(e), and (ii) the Bank does not extend the Last Availability Date, then the amounts allocated above for repayment shall be reduced pro rata. Furthermore, in the event that (i) the Borrower does not draw down the entire Loan amount prior to the first Loan Repayment Date specified in this Section 2.02(e), and (ii) the Bank extends the Last Availability Date specified in Section 2.02(f) below to a date which falls after such first Loan Repayment Date, then the amount of each drawdown made on or after the first Loan Repayment Date shall be allocated for repayment in equal amounts to the several Loan Repayment Dates which fall after the date of such drawdown (with the Bank adjusting the amounts so allocated as necessary so as to achieve whole numbers in

each case). The Bank shall, from time to time, notify the Borrower of such allocations.

(f) The Last Availability Date shall be 19 November 2011, or such later date that the Bank may in its discretion establish and notify to the Borrower.

(g) The rate of the Commitment Charge shall be 0.5% per annum.

(h) The Loan is subject to a Variable Interest Rate.

Section 2.03. Drawdowns

The Available Amount may be drawn down from time to time in accordance with the provisions of Schedule 2 to finance (1) expenditures made (or, if the Bank so agrees, to be made) in respect of the reasonable cost of goods, works and services required for the Project, and (2) the Front-end Commission.

Section 2.04. Authorised Representative for Drawdowns

The Director of the Project Entity and the Executive Director of MDF (in its capacity as head of the PIA) are jointly (and not individually) designated as the Borrower's Authorised Representative for the purpose of taking any action required or permitted to be taken under the provisions of Section 2.03 and under the provisions of Sections 3.01 and 3.02 of the Standard Terms and Conditions.

ARTICLE III - EXECUTION OF THE PROJECT

Section 3.01. Other Affirmative Project Covenants

In addition to the general undertakings set forth in Articles IV and V of the Standard Terms and Conditions, the Borrower shall, unless the Bank otherwise agrees:

(a) make available to the Project Entity, pursuant to the On-lending and Guarantee Agreement, the proceeds of the Loan on terms and conditions acceptable to the Bank;

(b) exercise its rights under the On-lending and Guarantee Agreement in such manner as to protect the interests of the Project Entity and the Bank, to comply with the provisions of this Agreement and to accomplish the purposes for which the Loan is made;

(c) not, except as the Bank otherwise agrees, assign, amend, abrogate, terminate or waive any provision of the On-lending and Guarantee Agreement;

(d) cause the Project Entity to perform all of its obligations under the Project Agreement, including without limitation its obligations relating to:

- (1) the appointment of a Project Implementation Agency as provided for in Section 2.03 of the Project Agreement;
 - (2) procurement of goods, works and services from the Project as provided for in Section 2.04 of the Project Agreement and more in particular that for purposes of Section 4.03 of the Standard Terms and Conditions the following provisions shall, except as the Bank otherwise agrees, govern procurement by the Project Entity of goods, works and services required for the Project and to be financed out of the proceeds of the Loan:
 - (a) goods, works and services (other than consultants' services which are included within Section 2.04(c) of the Project Agreement) shall be procured through open tendering;
 - (b) for purposes of Section 2.04(a) of the Project Agreement, the procedures for open tendering are set out in Chapter 3 of the EBRD Procurement Rules;
 - (c) consultants to be employed by the Project Entity to assist in the carrying out the Project shall be selected in accordance with the procedures set out in Chapter 5 of the EBRD Procurement Rules; and
 - (d) all contracts shall be subject to the prior review procedures set out in the Annex 1 to the EBRD Procurement Rules;
 - (3) environmental matters as provided for in Section 2.05 of the Project Agreement;
 - (4) employment and use of consultants to assist in the implementation of the Project as provided for in Section 2.06 of the Project Agreement;
 - (5) carrying out of the Project Implementation Plan as provided for in Section 2.01(a)(1) of the Project Agreement;
 - (6) preparation and submission of reports on matters relating to the Project and to the Project Entity's operations as provided for in Section 2.07 of the Project Agreement;
 - (7) maintenance of procedures, records and accounts, preparation, auditing and submission to the Bank of financial statements and furnishing to the Bank any other relevant information relating to the Project or the Project Entity's operations as provided for in Section 3.01 of the Project Agreement; and
 - (8) compliance with all covenants regarding financial and operational aspects of the Project and the Project Entity as provided for in Sections 3.02, 3.03 and 3.04 of the Project Agreement;
- (e) cause the Ministry of Economic Development and the Borjomi Municipality to perform all of their obligations under the Project Support Agreement;

(f) nominate MDF as Project Implementation Agency for appointment by the Project Entity as provided for in Section 2.03 of the Project Agreement under terms of reference acceptable to the Bank; and

(g) undertake and/or procure that all necessary measures are taken to ensure that the Project Entity maintains satisfactory levels of operating and maintenance costs and that funds are available to cover the operating and maintenance costs.

ARTICLE IV – SUSPENSION; ACCELERATION

Section 4.01. Suspension

The following are specified for purposes of Section 7.01(a)(xvii) of the Standard Terms and Conditions:

(a) the legislative and regulatory framework applicable to the municipal water services sector in the territory of the Borrower shall have been amended, suspended, abrogated, repealed or waived in a manner so as to materially impair the ability (in the reasonable opinion of the Bank) of the Project Entity to meet its obligations under the Project Agreement and the On-Lending and Guarantee Agreement; and

(b) the Ministry of Economic Development or the Borjomi Municipality shall have failed to perform any of their obligations under the Project Support Agreement and such failure to perform has continued for a period of thirty (30) days after notice thereof has been given by the Bank to the Borrower.

Section 4.02. Acceleration of Maturity

The following are specified for purposes of Section 7.06(f) of the Standard Terms and Conditions:

(a) the legislative and regulatory framework applicable to the municipal water services sector in the territory of the Borrower shall have been amended, suspended, abrogated, repealed or waived in a manner so as to materially impair the ability (in the reasonable opinion of the Bank) of the Project Entity to meet its obligations under the Project Agreement and the On-lending Loan and Guarantee Agreement; and

(b) the Ministry of Economic Development or the Borjomi Municipality shall have failed to perform any of their obligations under the Project Support Agreement and such failure to perform has continued for a period of thirty (30) days after notice thereof has been given by the Bank to the Borrower.

delivered on behalf of the Project Entity and constitutes a valid and legally binding obligation of the Project Entity, enforceable in accordance with its terms.

(c) In addition to the opinion or opinions of counsels to be given on behalf of the Borrower and the Project Entity to the Bank, the Bank shall be furnished (i) on behalf of the Borjomi Municipality an opinion, in form and substance satisfactory to the Bank, of counsel acceptable to the Bank, showing that the Project Support Agreement and the On-lending and Guarantee Agreement have been duly authorised or ratified by, and delivered on behalf of, the Borjomi Municipality and constitute a valid and legally binding obligation of the Borjomi Municipality, enforceable in accordance with their respective terms, and (ii) on behalf of the Ministry of Economic Development an opinion, in form and substance satisfactory to the Bank, of a person acceptable to the Bank, showing that the Project Support Agreement has been duly authorised or ratified by, and delivered on behalf of, the Ministry of Economic Development and constitutes a valid and legally binding obligation of the Ministry of Economic Development, enforceable in accordance with its terms.

Section 5.03. Termination for Failure to Become Effective

The date 180 days after the date of this Agreement is specified for purposes of Section 9.04 of the Standard Terms and Conditions. It is acknowledged that pursuant to Section 9.01 of the Standard Terms and Conditions, this Agreement shall only become effective on the date upon which the Bank dispatches to the Borrower notice of the Bank's acceptance of the evidence required by Sections 9.02 and 9.03 of the Standard Terms and Conditions.

ARTICLE VI - MISCELLANEOUS

Section 6.01. Notices

The following addresses are specified for purposes of Section 10.01 of the Standard Terms and Conditions:

For the Borrower:

Georgia
Ministry of Finance
16, Gorgasali Street
0114 Tblisi
Georgia

Attention: Department of External Relations

Fax: +995 32 446 461

For the Bank:

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Attention: Operation Administration Unit

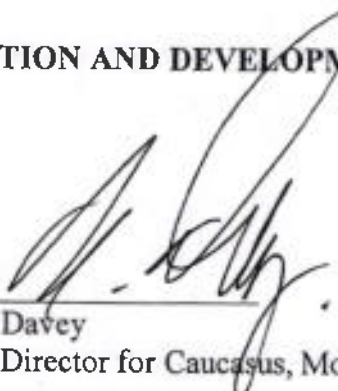
Fax: +44-20-7338-6100

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorised representatives, have caused this Agreement to be signed in English in five copies and delivered at Tbilisi, Georgia as of the day and year first above written.

GEORGIA

By: 
Name: Nika Gilauri
Title: Minister of Finance of Georgia

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

By: 
Name: Michael Davey
Title: Country Director for Caucasus, Moldova and Belarus