REPORT NO.: RES35831

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
TRANSMISSION GRID STRENGTHENING PROJECT
APPROVED ON MAY 13, 2014
TO
MINISTRY OF FINANCE

ENERGY & EXTRACTIVES
EUROPE AND CENTRAL ASIA

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
</tr>
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<tbody>
<tr>
<td>P147348</td>
<td>Investment Project Financing</td>
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</table>

<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
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<tbody>
<tr>
<td>Full Assessment (A)</td>
<td>Full Assessment (A)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tbody>
<tr>
<td>13-May-2014</td>
<td>31-Mar-2019</td>
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Organizations

<table>
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<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>Ministry of Energy, Georgian State Electrosystem</td>
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</table>

Project Development Objective (PDO)

Original PDO

The project development objectives are to provide reliable power transmission to the southwestern part of the grid, upgrade electricity exchange systems, and provide economically efficient, environmentally and socially sustainable electricity sector planning.

Summary Status of Financing

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Net Commitment</th>
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<td>IBRD-83770</td>
<td>13-May-2014</td>
<td>03-Sep-2014</td>
<td>29-Dec-2014</td>
<td>31-Mar-2019</td>
<td>60.00</td>
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Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
Summary

The proposed Level-II project restructuring is to extend the current project closing date for the IBRD Loan (Loan No. 8377-GE) for the Georgia Transmission Grid Strengthening Project, (P147348) from March 31, 2019 to March 1, 2021 for completion of construction of the Akhaltsikhe-Batumi 220kV transmission (ABT) line connecting high voltage substations in Akhaltsikhe and Batumi with Shuakhevi hydropower station, completion of the upgrade of the Supervisory Control and Data Acquisition (SCADA) and wholesale metering systems, and completion of the Strategic Environmental and Social Assessment (SESA).

The Project, in the amount of US$60 million, was approved on May 13, 2014. It is financed through an IBRD Loan (Loan No. 8377-GE). The Project Development Objectives (PDO) are to provide reliable power transmission to the southwestern part of the grid, upgrade electricity exchange systems, and provide economically efficient, environmentally and socially sustainable electricity sector planning. The Project consists of four components; component 1: Transmission System Strengthening which finances construction of the ABT line, component 2: Wholesale Power Exchange Platform; which finances design, supply and installation of a power exchange platform, component 3: Preparation of Electricity Sector Strategic Environmental and Social Assessment, and component 4: project management and preparation of transmission systems studies.

Georgia’s Ministry of Finance requested extension of the current closing date of the project to March 31, 2021, letter dated May 4, 2018. To enable the approval of the extension by Country Director, the Bank proposed extension to March 1, 2021. The proposed extension was discussed and agreed with GSE and it is recorded in the aide-memoire dated November 7, 2018 of the implementation support missions carried out between October 15-24, 2018.

The IBRD Loan is 78 percent disbursed. Judged by implementation progress the project will achieve its stated objectives, current progress to achieving PDO and overall implementation progress are moderately satisfactory. Moderately satisfactory ratings are caused by slow implementation of the components 1, 2 and 3; Transmission System Strengthening, Wholesale Power Exchange Platform; and Preparation of Electricity Sector SESA respectively.

Financial management performance of the project is rated Satisfactory. There are no overdue audits. Implementation of the components 1, 2, and 3 are off track, all activities are expected to be completed by the extended closing date of the project, March 1, 2021.

The status of each component is described below:

Component 1: (US$52.35 million) Transmission System Strengthening. This component finances design and supply of the ABT line and supervision services. The contract for the design and supply of the transmission line was signed on April 27, 2015. Implementation of this component is off track. Expected completion date of the line was December 31, 2018. However, in April 2018 the Bank found that the implementing agency, Georgian State Electrosystem (GSE) has instructed the contractor to proceeded with the construction of the line without compensating affected land owners. The Bank ordered GSE to stop construction works and issued a notice of threat of suspension of disbursements (the Notice) on July 22, 2018. Works remained stopped from May 2018 for about 6 months. Construction was resumed after the Bank established that GSE had complied with the actions set out in the Notice, respectively notification was sent to GSE dated October 26, 2018. Due to 6 month suspension of works the completion of the line is delayed until December 31, 2020.
Component 2: (US$6.00 million) Wholesale Power Exchange Platform. This component finances design, supply and installation of a power exchange platform and upgrade of the SCADA system. Implementation of this component is off track. Preparation of the technical specifications for the metering system for the platform and upgrade of the SCADA are ongoing. Expected completion of metering and SCADA systems is December 31, 2020 and April 2020 respectively.

Component 3: (US$1.00 million) Preparation of Electricity Sector SESA. Implementation of this component is off track. Preparation of the SESA was slow, in addition the Government was not able to extend the contract for the preparation of SESA due to the merger of the Ministry of Economy and Ministry of Energy on December 14, 2017 and the appointment of the new cabinet of ministers in June 2018. The extension of the contract is expected in March, 2019 and completion of the SESA is expected on June 30, 2019.

Component 4: (US$0.50 million) project management and preparation of transmission systems studies. The implementation of this component is completed. Feasibility study and environmental and social impact assessment for the new Jvari-Tskaltubo transmission line is complete.

Proposed Changes

The proposed Level-II restructuring will accommodate the following changes:

(i) Extension of the current project closing date from March 31, 2019 to March 1, 2021; and
(ii) Removal of the Current Ratio Covenant.

RATIONALE

The proposed 23 month extension of the current closing date is required to complete construction of the ABT line, complete upgrade of the SCADA system, and complete preparation of the SESA.

Removal of the current ratio covenant is justified because the breach of covenant leads to reclassification of the GSE long-term liabilities to the Bank into short-term liabilities, which in turn, worsens the current ratio leading to a perpetual breach of the covenant. Covenant was designed to address the issues of overall financial standing of GSE. The issue of the GSE financial standing will be addressed by a new Energy Supply Reliability and Financial Recovery Project (P169117) which is under preparation. The project aims to improve GSEs financial standing. It will, inter alia, cause improvement of the GSEs overall financial standing including improvement of the current ratio.

II. DETAILED CHANGES

LOAN CLOSING DATE(S)

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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<tbody>
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<td>01-Mar-2021</td>
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