



Asian Development Bank

Central and West Asia Department

7 November 2012

Mr. Nodar Khaduri  
Minister of Finance  
Ministry of Finance  
Georgia

Dear Minister Khaduri:

**Subject: MFF0055-GEO: Urban Services Improvement Investment Program  
– Amendment to the Framework Financing Agreement**

1. We refer to the Framework Financing Agreement (“FFA”) dated 1 March 2011 between Georgia (the Borrower) and the Asian Development Bank (“ADB”) for the Urban Services Improvement Investment Program (“Investment Program”). All capitalized terms used but not defined herein shall have the meaning given thereto in the FFA, unless the context requires otherwise.

2. In response to the letter of the Ministry of Finance dated 18 June 2012, ADB approved a change to the Investment Program to reflect (i) the inclusion of the town of Ureki in the Investment Program and (ii) the expansion of the coverage to all secondary towns/urban centers in Georgia, and a change to Project 1 under the Investment Program to include the construction of an office premise of UWSCG. To reflect these changes, we propose to amend the FFA as set forth below:

(i) In paragraph (a) under the Section on Investment Program, reference to “6 secondary towns” shall be replaced with “7 secondary towns.”

(ii) In paragraph (b) under the Section on Investment Program, the last sentence shall be deleted and replaced with:

“This includes providing management contractor support to improve management and technical capabilities of UWSCG and construction of an office premise of UWSCG.”

(iii) In the second paragraph of the Section on Multitranche Financing Facility, item (b) shall be deleted and replaced with:

“(b) capacity development for MRDI, MEPNR, MA, GNEWSRC and UWSCG, management contractor support for UWSCG and construction of an office premise of UWSCG.”

(iv) Schedule 1, paragraph 17 shall be amended to read as follows:

"The Facility will finance physical investments in 7 secondary towns identified for economic development by the Government in line with its economic growth strategy – the secondary towns include Kutaisi and Poti, which are being developed as free industrial zones; Marneuli and Zugdidi, which have agro-processing industries and potentials for developing agriculture product markets; Mestia and Anaklia, which are being developed as tourist centers; and Ureki which is being developed to enhance medical tourism. Non-physical investments and construction of an office premise of UWSCG, financed by the Facility will help develop the service utility's (UWSCG's) capacity for service provision, and develop regulatory bodies' (GNEWSRC, MEPNR and MA) capacities in service regulation to ensure that investments are sustainable in the long-term."

(v) Schedule 1, paragraph 18 shall be amended to read as follows:

"The Investment Program will support the implementation of the SDP to improve the health of residents in the secondary towns of Marneuli, Kutaisi, Poti, Zugdidi, Anaklia, Mestia, and Ureki, and improve the institutional effectiveness of organizations delivering services and regulating service delivery. The outcome of the Investment Program is improved WSS services in these secondary towns. It will support physical and non-physical interventions through the following components:

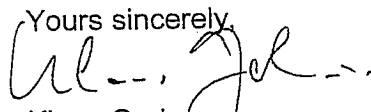
- (i) Component 1: Infrastructure Improvement (Physical)
- (ii) Component 2: Institutional Effectiveness (Physical and non-physical)
- (iii) Component 3: Project Implementation Support (Non-physical)."

(vi) The Design and Monitoring Framework (DMF) in Schedule 2 of the FFA shall be replaced in its entirety with the DMF set out in the Annex to this letter agreement.

3. Save and except to the extent set out above, the FFA remains unchanged.

4. Pursuant to ADB's Public Communications Policy on disclosure and exchange of information, the amendments to the FFA will be posted on ADB's website within 2 weeks from the date that the amendments become effective, after removing any information that falls within the PCP exceptions as specified by the Borrower.

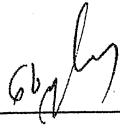
5. Please indicate the Borrower's concurrence to the amendments set out in paragraph 2 of this letter agreement and to the terms of this letter agreement by countersigning each of the two original of this letter agreement in the space indicated below. Please retain one signed original of this letter agreement for your records and return the other to ADB. The proposed amendments shall take effect on the date of receipt by ADB of a signed original of this letter agreement.

Yours sincerely,  
  
Klaus Gerhaeusser  
Director General

A. Accepted and agreed.

B. Confirmed that the amendments to the FFA do not contain information falling within the PCP exceptions.

For and on behalf of  
GEORGIA

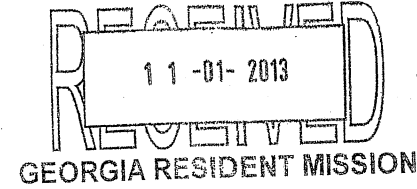


Name: Nodar Khaduri

Designation: Minister of Finance

Date: 11.12.12

ASIAN DEVELOPMENT BANK



## REVISED DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Improved health of residents in the secondary towns of Georgia</p>	<p>By the end of the investment program plus 3 years (2022):<sup>a</sup></p> <ul style="list-style-type: none"> <li>(i) Prevalence of waterborne illness in households reduced by at least 75% from current the incidence of 4% of households per annum<sup>b</sup></li> <li>(ii) Productive days lost to waterborne illness reduced by at least 75% from the current 8 days per person per annum</li> <li>(iii) Average annual expenditure to treat waterborne illness reduced by at least 75% from the current \$74 per household per annum</li> </ul>	<p>Sex-disaggregated baseline survey conducted at investment program inception (2011), completion (2019), and in 2022</p> <p>Surveys conducted as a part of the PPMS and by UWSCG</p>	<p><b>Assumption</b> The government continues to provide support for an enabling investment climate.</p>
<p><b>Outcome</b> Improved water supply and sanitation services in the secondary towns of Georgia</p>	<p>By the end of the investment program in 2019:</p> <ul style="list-style-type: none"> <li>(i) Residents' access to safe sanitation<sup>c</sup> increased from 25% in 2011 to 88% by 2019</li> <li>(ii) Residents' access to 24-hour potable water supply increased from 74% in 2011 to 95% by 2019</li> </ul> <p>100% households headed by women in the region covered</p>	<p>Annual sex-disaggregated socioeconomic surveys undertaken as part of the PPMS to determine public satisfaction with the quality of water supply and sanitation</p> <p>National statistics on water supply quality and effluent discharge from MEPNR, MA, and UWSCG</p>	<p><b>Assumption</b> The government ensures water company staff and the management contractor efficiently deliver services.</p> <p><b>Risk</b> Political systems interfere with the enforcement of legislative and regulatory control.</p>
<p><b>Outputs</b> <b>Component 1: Infrastructure Improvement</b></p> <p>Water supply system efficiency improved through rehabilitation and replacement, and coverage expanded</p>	<p>By 2019:</p> <ul style="list-style-type: none"> <li>(i) 60,000 cubic meter reservoirs, 110 km of water transmission mains, and 350 km of distribution networks rehabilitated, reconstructed, or newly constructed</li> <li>(ii) 36 MLD capacity water treatment plants constructed</li> <li>(iii) Nonrevenue water progressively reduced from 60% to 30% (baseline and target to be established at investment program tranche inception)</li> <li>(iv) Energy savings achieved through efficient pumping systems (baseline and target to</li> </ul>	<p>Semiannual progress reports prepared by UWSCG</p> <p>Disbursement and reimbursement records maintained by UWSCG</p> <p>PPMS reports prepared by UWSCG</p> <p>UWSCG annual work plans</p> <p>As-built drawings developed by contractors</p>	<p><b>Assumption</b> Ongoing internationally financed projects are efficiently implemented.</p> <p><b>Risk</b> The cost of construction materials suddenly increases.</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
	be established at investment program tranche 1 inception) (v) Residual chlorine at tail ends of water supply system maintained at 0.2–0.4 parts per million	Project component completion and commissioning certificates provided by investment program construction supervision consultant	
Sewerage and sanitation system efficiency improved through rehabilitation and reconstruction, and coverage expanded	(i) Access to sewerage network increased from 83,000 people in 2011 to 305,000 in 2019 (ii) Sewer-cleaning vehicles procured and made operational by 2011 (iii) Sewage pumps operating daily and discharging sewage to treatment plants (iv) Sewage treatment plants rehabilitated or constructed to treat and safely discharge sewage <sup>d</sup>		
<b>Component 2: Institutional Effectiveness</b>  Business plans developed and implemented  Financial management improved; management information system and accounting system developed  Geospatial WSS utility management systems operationalized  Management capacity of UWSCG enhanced	By 2019:  UWSCG develops long-term capital improvement plans, asset strengthening plans, resource mobilization, and expenditure management plans  (i) UWSCG operating ratio improved from 1.8 in 2010 to 1 by 2019, indicating improved financial management (ii) UWSCG revenue collection efficiency improved from 49% in 2010 to 95% by 2019 (iii) Sex-disaggregated consumer database created for UWSCG to develop targeted marketing campaigns for households headed by women  Calibrated network models developed for water and sewerage networks based on geographic information system maps  (i) WSS management program with Georgian universities operationalized (ii) Women in 30% of key management staff positions in UWSCG (iii) UWSCG staff trained in financial management and accounting (30% of them women)	Semiannual progress reports prepared by UWSCG  UWSCG annual work plans	<b>Risk</b> Enrollment in the WSS management program is low.

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
Sector regulatory capacity of GNEWSRC, MEPNR, and MA developed	(iv) Sex-disaggregated data base for human resource management in place (v) MEPNR confirming treated sewage meets discharge standards  (i) GNEWSRC staff approve tariff and monitor WSS service delivery (ii) MEPNR staff undertake monitoring of treatment facility performance and effluent discharge standards (iii) MA staff undertake monitoring of drinking water quality standards		
<b>Component 3: Project Implementation Support</b> Public awareness program effectively implemented, materials on hygiene and sanitation disseminated, and women developed as hygiene and sanitation advocates	By 2019:  (i) Each investment program service center having a customer care unit at least 30% staffed by women that informs, educates, and communicates on water, hygiene, and sanitation (ii) Public awareness program targeting women as household managers rolled out in all investment program towns	Semiannual progress reports prepared by UWSCG  PPMS reports prepared by UWSCG  UWSCG annual work plans	<b>Assumption</b> Nongovernment organizations are actively involved in educating beneficiaries on project benefits.

ADB = Asian Development Bank, ADF = Asian Development Fund, GNEWSRC = Georgia National Energy and Water Supply Regulatory Commission, km = kilometer, MA = Ministry of Agriculture, MEPNR = Ministry of Environmental Protection and Natural Resources, MLD = million liters per day, OCR = ordinary capital resources, PPMS = project performance management system, UWSCG = United Water Supply Company of Georgia Limited Liability Company; WSS = water supply and sanitation.

<sup>a</sup> The baseline will be re-established during socioeconomic surveys conducted as a part of the project performance management system and will include knowledge, attitude, and practice surveys.

<sup>b</sup> Waterborne diseases cause diarrhea and will be confirmed during baseline surveys.

<sup>c</sup> Includes pour-flush latrines with reticulated sewerage networks.

<sup>d</sup> Capacity to be determined during implementation.

Source: Asian Development Bank.