



18 July 2013

Mr. Nodar Khaduri
Minister
Ministry of Finance
16 Gorgasali Street, 0114
Tbilisi, Georgia

Dear Minister Khaduri:

**MFF 0043-GEO: Sustainable Urban Transport Investment Program (SUTIP) and
Loans 2879/2880(SF)-GEO: SUTIP Project 2
— Amendments to the Framework Financing Agreement and Loan Agreements**

1. We refer to (i) the Framework Financing Agreement (“FFA”) dated 21 June 2010 between Georgia (“Borrower”) and Asian Development Bank (“ADB”) for the Sustainable Urban Transport Investment Program (“Investment Program”); and (ii) the Ordinary Operations Loan Agreement and Special Operations Loan Agreement (“Loan Agreements”) dated 24 July 2012 between the Borrower and ADB for Project 2 of the Investment Program (“Project”). All capitalized terms used but not defined herein shall have the meaning given thereto in the FFA and the Loan Agreements, unless the context requires otherwise.

2. On 17 May 2013, ADB approved a minor change in the Investment Program to correct the year of achievement of the impact of the Investment Program and update two of the impact indicators. To give effect to these changes, we propose to amend Schedule 2 to the FFA as set out in Attachment 1 to this Amendment Letter. This is pursuant to a recent review of implementation under the Investment Program.

3. On 17 May 2013, ADB also approved (i) a major change in the Project by removing the Mtskheta bridge subproject and the consulting services for the Mtskheta bridge subproject and the Tbilisi Boulevard subproject; and (ii) the reallocation of Loan proceeds and change in the basis for withdrawal from the Loan Accounts in connection with the major change in the Project. ADB approved the cancellation of \$15,114,000 from Loan No. 2879 also on 17 May 2013. The foregoing changes reflect the request of the Government in its letter dated 15 February 2013 and further discussions between the Government and ADB. To give effect to these changes, we propose that the Loan Agreements be amended as follows:

Amendments to the Ordinary Operations Loan Agreement

- (a) Section 2.01 of the Ordinary Operations Loan Agreement shall be revised to read as follows:

“Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of forty-eight million eight hundred eighty six thousand Dollars (\$48,886,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.”

- (b) The Table set out in the Attachment to Schedule 2 to the Ordinary Operations Loan Agreement shall be replaced by Attachment 2 to this letter agreement.

Amendments to the Special Operations Loan Agreement

- (c) Recital (C) of the Special Operations Loan Agreement shall be revised to read as follows:

“(C) by a loan agreement between the Borrower and ADB (“Ordinary Operations Loan Agreement”), ADB has agreed to make to the Borrower a loan from ADB’s ordinary capital resources in the amount of forty-eight million eight hundred eighty six thousand Dollars (\$48,886,000) for the purposes of the Project;”

- (d) Paragraph 3(b) of Schedule 1 to the Special Operations Loan Agreement shall be deleted.

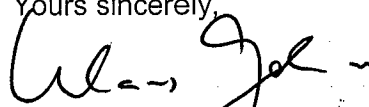
- (e) The Table set out in the Attachment to Schedule 3 to the Special Operations Loan Agreement shall be replaced by Attachment 3 to this letter agreement.

4. Save and except to the extent set out above, the FFA and the Loan Agreements remain unchanged.

5. Pursuant to ADB’s Public Communications Policy on disclosure and exchange of information, the amendments to the FFA and the Loan Agreements 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.

6. Please indicate the Borrower’s concurrence to the amendments set out in paragraphs 2 and 3 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 Gerhaeuser
Director General
Central and West Asia Department

Attachments:

1. Schedule 2 of the Framework Financing Agreement, as amended (3 pages)
2. Attachment to Schedule 2 of the Ordinary Operations Loan Agreement, as amended (1 page)
3. Attachment to Schedule 3 of the Special Operations Loan Agreement, as amended (1 page)

A. Accepted and agreed.

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

For and on behalf of
Georgia

Name: Nodas Kheduci

Designation: Minister of Finance

Date: 17.09.2013

DESIGN AND MONITORING FRAMEWORK MULTITRANCHE FINANCING FACILITY

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved urban environment, expanded local economy, and better living conditions within urban areas</p>	<p>By 2021 -Attractiveness and preservation of cultural heritage with 10% increase in tourist nights compared to baseline (129,000) in 2008 - Increased safety by reducing urban road accidents and casualties by 5% compared to baseline (8,000) in 2009 - 100 permanent jobs in civil engineering construction created (including operation and maintenance) compared to baseline (21,772) 2009</p>	<p>-Report on multiple Indicators from municipal departments, municipal companies and NGO -Surveys by Tourism Department or other entities as appropriate -Statistical surveys (MRDI or other agencies as appropriate) - Georgia Department of Labor statistics -Surveys by Tbilisi Municipality or other entities as appropriate</p>	<p>Assumptions The government pursues strategy of growth Appropriate environmental framework in place Political and economic stability Implementation of the urban transport MFF as planned</p> <p>Risk Vulnerability of the economy to exogenous shocks</p>
<p>Outcome Efficient, reliable, and affordable urban transport services provided in relevant cities</p>	<p>By 2018 -Program will benefit at least 2.5 million people in urban areas compared to baseline in 2009 -Increase by 5% of urban population in Tbilisi with direct access to public transport compared to baseline (35%) in 2008 -Increase in public transport ridership by 5% compared to 2009 baseline (923,000) -Maintain public transport modal split in Tbilisi at least at the same level as 2009 baseline (54%) -Increase by 5% number of women using municipal urban transport compared to baseline (56%) in 2008</p>	<p>-NGO and international or national transport associations reports -Municipal statistics Metro, bus companies, or other agencies statistics as appropriate -MRDI database</p>	<p>Assumptions -Implementation of the urban transport road map as planned -Prompt decision-making by the government and releasing counterpart funds, and supporting the capacity development needs of the relevant municipalities -MDF, Tbilisi, and other municipalities follow safeguards policy</p> <p>Risk -Weak coordination among government departments and relevant municipalities undermines sustainable operations</p>
<p>Outputs: 1. Urban transport infrastructure extended, rehabilitated and improved by MDF and relevant municipalities</p>	<p>By 2014 -A 1.5 km long Tbilisi Metro extension to university completed -20 km of Mestia road upgraded -All design and construction address specific needs of women and men riders (e.g., adults with children)</p> <p>By 2016 -A 15 km urban link Tbilisi–Rustavi completed -Footbridges constructed in relevant cities -10 km of urban road and coastal waterfront improvement -Traffic management center in</p>	<p>-Urban transport road map published by the relevant municipality enforced -Tbilisi Metro and bus company, annual reports -Participating city website and other municipal communication and media materials -Press release reports and press review -Municipal transport statistics -Municipality reports -Surveys conducted by the municipality</p>	<p>Assumption -Properly staffed and empowered institutions are able to effectively deliver, operate, and manage municipal services.</p> <p>Risks -New municipal government shifting focus from urban transport investments -Capacity of domestic contractors is exhausted due to large number of ongoing externally funded</p>

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>operation in Tbilisi</p> <p>By 2018 -10 km of urban road with urban renewal upgraded in urban areas -Multimodal interchanges redesigned and upgraded -Segregated bus and tram lines, and for riverside urban regeneration considered</p>		<p>projects</p> <p>-Rising energy costs increase operation cost and tariff increases not supported by consumers</p>
<p>2. Institutional and management capacity of MDF and relevant municipalities strengthened</p>	<p>By 2014 -Gender-responsive urban transport road map endorsed by Tbilisi -One sex-disaggregated household survey carried out in Tbilisi (50% of respondents women) -One multimodal traffic model implemented -A multimodal team set up in Tbilisi with women representatives -One multimodal transport website with gender responsive design of public transportation -A city twinning with focus on gender public transport design implemented</p> <p>By 2016 -Urban transport master plan developed and endorsed, including PPP options -One integrated ticketing system implemented -A parking management outsourcing carried out -Microbus organization set up rethought in the context of the urban transport master plan -Planning processes streamlined and monitoring tools established</p> <p>By 2018 -One public service contracts considered -Traffic calming zones or pedestrianization considered</p>	<p>-Participating city website and municipal organization chart</p>	<p>Assumptions -Municipalities receptive to reform agenda and strategic planning</p> <p>-Agreed institutional reforms are implemented and continued political will to manage and monitor program development and implementation</p> <p>Risks -Interdepartmental coordination and support within municipality is not forthcoming -Divergence between central government and municipal authorities on the reform to implement</p>
<p>3. Establishment of skilled and experienced units to oversee the management and the implementation of the program in MDF and the relevant municipalities</p>	<p>By 2014 -Feasibility studies and project due diligences timely prepared by MDF and participating municipalities -Gender sensitive public awareness campaigns organized -Financial management, gender sensitization, procurement,</p>	<p>-MDF annual report and communication</p>	<p>Assumption -MDF is giving priority to the urban transport projects and is willing to hire necessary resources</p>

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
	safeguards and training provided By 2013 -Professional staff hired by MDF with 15% recruitment of qualified women -Training on concession, lease and management contracts carried out -Studies and due diligences for subsequent projects prepared		Risk -Political issues shift urban transport priority
Activities with Key Milestones 1. Construction, Improvement and Rehabilitation of Urban Transport Infrastructure Tranche 1: (i) Detailed design completed by month 12 from the effectiveness of the Tranche 1 loan agreement (MDF, participating municipalities) (ii) Urban infrastructures constructed, commissioned, and made operational in phases by month 60 (MDF, participating municipalities, contractors) (iii) Equipment procured and delivered by month 36 (MDF, participating municipalities, manufacturers) Tranche 2: (i) Detailed design completed by month 12 from the effectiveness of the Tranche 2 loan agreement (MDF, participating municipalities) (ii) Timely land acquisition and implementation of resettlement plans before contract awards (MDF, participating municipalities) (iii) Urban infrastructures constructed, commissioned, and made operational in phases by month 60 (MDF, participating municipalities, contractors) (iv) Machinery & equipment procured and delivered by month 36 (MDF, participating municipalities, manufacturers) Tranche 3: (i) Detailed design completed by month 12 from the effectiveness of the Tranche 3 loan agreement (MDF, participating municipalities) (ii) Timely land acquisition and implementation of resettlement plans before contractors contract awards (MDF, participating municipalities) (iii) Urban infrastructures constructed, commissioned, and made operational in phases by month 60 by contractors (MDF, participating municipalities, contractors) (iv) Machinery and equipment procured and delivered by month 36 (MDF, participating municipalities, manufacturers) 2. Institutional Capacity Development Plan (i) Household survey and strategic traffic model developed by month 12 (MDF, Tbilisi municipality) (ii) Multimodal team set-up at the municipal level by month 12 and multimodal concept initiated by month 18 (participating municipalities) (iii) Sex-disaggregated public transport survey and database developed by month 24 (participating municipalities, operators) 3. Program Management Facility (i) Safeguards specialist(s) recruited by month 6 (MDF, participating municipalities) (ii) Gender Focal point in MDF identified and supported by ADB (iii) Training plan carried out as appropriate by month 48, with at least 15% of women participants (MDF, participating municipalities) (iv) Support provided to the program development, implementation and management for the whole duration of the program (MDF, participating municipalities). Tranche 2: to be approved by end of 2012 Tranche 3: to be approved by end of 2013			Inputs ADB: \$300.00 million with ADF and OCR Tranche 1: \$85 million (ADF) Tranche 2: \$64.89 million with \$16.00 million equivalent (ADF) \$48.89 million (OCR) Government: \$51.63 million

ADB = Asian Development Bank, ADF = Asian Development Fund, km = kilometer, MDF = Municipal Development Fund, MFF = multitranche financing facility, MRDI = Ministry of Regional Development and Infrastructure, NGO = nongovernment organization, OCR = ordinary capital resources, PMU = program management unit, PPP = public-private partnership.

Loan 2879: Ordinary Operations Loan Agreement

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Sustainable Urban Transport Investment Program – Project 2)			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Works	36,674,000	74.58% of total expenditure claimed*
2	Consulting Services	2,761,000	70.82% of total expenditure claimed*
3	Interest and Commitment Charges	1,616,400	100% of amounts due
4	Unallocated	7,834,600	
	Total	48,886,000	

*Exclusive of taxes and duties imposed within the territory of the Borrower.

Loan 2880: Special Operations Loan Agreement

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Sustainable Urban Transport Investment Program – Project 2)			
Number	Item	Total Amount Allocated for ADB Financing (SDR) Category	Basis for Withdrawal from the Loan Account
1	Works	8,312,000	25.42% of total expenditure claimed*
2	Consulting Services	758,000	29.18% of total expenditure claimed*
3	Interest Charge	223,000	100% of amounts due
4	Unallocated	1,346,000	
	Total	10,639,000	

* Exclusive of taxes and duties imposed within the territory of the Borrower.