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LOAN NUMBER 3985-GEO

LOAN AGREEMENT  
(Ordinary Operations)

(Sustainable Water Supply and Sanitation Sector Development Program)

between

GEORGIA

and

ASIAN DEVELOPMENT BANK

DATED 15 OCTOBER 2020

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GEO 51132

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 15 October 2020 between GEORGIA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

**WHEREAS**

(A) ADB has received from the Borrower a development policy letter dated 11 August 2020 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's water supply and sanitation sector ("Program");

(B) the Borrower has applied to ADB for a loan for the purposes of the Program;

(C) by an agreement of even date herewith between the Borrower and ADB ("Project Loan Agreement"), ADB has agreed to provide a loan from its ordinary capital resources in the amount of €17,740,000 for the purposes of financing expenditures of the Project described in Schedule 1 to the Project Loan Agreement; and

(D) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of ADB's Ordinary Operations Loan Regulations, dated 1 January 2017 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(tt) is deleted and the following is substituted therefor:

The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower;

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(vv) is deleted and the following is substituted therefor:

The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".
- (e) Section 6.01(b) is deleted.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

- (a) "Counterpart Funds" means the local currency generated from the Loan proceeds under the Program and referred to in paragraph 4 of Schedule 4 to this Loan Agreement;
- (b) "Deposit Account" means the account referred to in paragraph 3 of Schedule 3 to this Loan Agreement;
- (c) "First Tranche" means the portion of the proceeds of the Loan in an amount of €70,960,000 to be initially withdrawn;
- (d) "GNERC" means Georgian National Energy and Water Supply Regulatory Commission of the Borrower;
- (e) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (f) "MOF" means the Ministry of Finance of the Borrower or any successor thereto;
- (g) "MRDI" means the Ministry of Regional Development and Infrastructure of the Borrower or any successor thereto;
- (h) "NBG" means the National Bank of Georgia or any successor thereto;
- (i) "Policy Matrix" means the policy matrix as agreed between the Borrower and ADB, which sets forth actions accomplished or to be accomplished by the Borrower under the Program and is attached to the Policy Letter;
- (j) "PPP" means public-private partnership as defined in ADB's Public-Private Partnership Operational Plan 2012-2020 (amended from time to time);
- (k) "Program Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means MOF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;

- (l) "Program Implementing Agencies" means UWSCG and MRDI, or any respective successors thereto;
- (m) "PSP" means private sector participation as defined in ADB's Public-Private Partnership Operational Plan 2012-2020 (amended from time to time);
- (n) "Second Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 6 of Schedule 3 to this Loan Agreement;
- (o) "UWSCG" means the United Water Supply Company of Georgia Limited Liability Company established under the laws and regulations of the Borrower with its current registered address at 76b, Vazha Pshavela Ave., Tbilisi 0186, Georgia, or any successor thereto acceptable to ADB; and
- (p) "WSS" means water supply and sanitation.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one hundred fifteen million three hundred ten thousand Euros (€115,310,000), 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 Loan has a principal repayment period of 12 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) EURIBOR; and
- (b) 0.60% as determined by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(f) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

### ARTICLE III

#### Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 31 December 2021 or such other date as may from time to time be agreed between the Borrower and ADB.

## ARTICLE IV

### Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. (a) As part of the information and reports referred to in Sections 7.01 and 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

## ARTICLE V

### Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Project Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Project Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 5.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

**ARTICLE VI****Miscellaneous**

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Ministry of Finance  
16 Gorgasali Street, 0114  
Tbilisi, Georgia

Email:

publicdebt@mof.ge

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines


Facsimile Numbers:

(632) 8636-2444  
(632) 8636-2301.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

GEORGIA

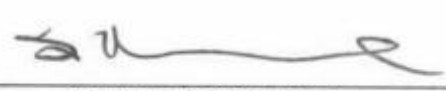
By



IVANE MATCHAVARIANI  
Minister of Finance

ASIAN DEVELOPMENT BANK

By



SHANE ROSENTHAL  
Country Director  
Georgia Resident Mission



**SCHEDULE 1****Description of the Program**

1. The principal objective of the Program is to improve governance and institutional capacity in water supply and sanitation sector and the scope includes strengthening of urban and rural WSS sector governance, and improvement of UWSCG governance and management effectiveness. The Program is described in more detail in the Policy Letter.
2. The Program is expected to be completed by 31 December 2021.

## SCHEDULE 2

### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Due	Installment Share (expressed as a %)
15 October 2023	4.166667
15 April 2024	4.166667
15 October 2024	4.166667
15 April 2025	4.166667
15 October 2025	4.166667
15 April 2026	4.166667
15 October 2026	4.166667
15 April 2027	4.166667
15 October 2027	4.166667
15 April 2028	4.166667
15 October 2028	4.166667
15 April 2029	4.166667
15 October 2029	4.166667
15 April 2030	4.166667
15 October 2030	4.166667
15 April 2031	4.166667
15 October 2031	4.166667
15 April 2032	4.166667
15 October 2032	4.166667
15 April 2033	4.166667
15 October 2033	4.166667
15 April 2034	4.166667
15 October 2034	4.166667
15 April 2035	4.166659
<b>Total</b>	<b>100.000000</b>

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

- (a) to the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule; and
- (b) any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within 2 calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**SCHEDULE 3****Withdrawal of Loan Proceeds**

1. Except as set out in this Schedule or as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.
2. An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate a sub-account of the State Treasury FX account (Deposit Account) at NGB into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with the applicable regulations and procedures of the Borrower.  
  
(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.
4. No Loan proceeds shall be withdrawn to finance any item specified in the Attachment 1 to this Schedule.
5. The Borrower may withdraw the Loan upon effectiveness of this Loan Agreement.
6. Notwithstanding any other provisions of this Loan Agreement and except as ADB may otherwise agree, no withdrawal shall be made from the Loan Account for the Second Tranche unless ADB is satisfied, after consultation with the Borrower, that: (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program, (b) the policy actions that were met for the release of the First Tranche continue to be complied with by the Borrower, and (c) the Borrower has met the policy actions for the release of the tranche specified in Attachment 2 to this Schedule.

**Negative List**

No withdrawals of Loan proceeds will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

**Table: Ineligible Items**

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iii) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (iv) expenditures for narcotics;
- (v) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vi) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

**Policy Actions for Release of the Second Tranche**

1. The Government of Georgia submits the Law on Water Resources Management to the Parliament of Georgia for approval to incorporate all aspects of integrated water resources management, including establishment of river basin management and harmonize Georgia's environmental legislation with the European Union Water Framework Directive.
2. MRDI approves a Vision and Policy Statement for the WSS sector covering both urban and rural including wastewater and stormwater management strategy and promoting adherence to integrated water resources management principles, good sector and service provider governance. The Vision and Policy Statement will include environmental, and climate-friendly features and gender-specific provisions that will improve women's access to water, and ensure their participation in community discussions and decision-making as water users and consumers.
3. MRDI prepares its WSS Sector Development Framework for 2021–2030 in consultation with UWSCG, municipalities, municipal water companies, community-based organizations, and river basin committees, and adopts the Framework to achieve continuous urban WSS and safe WSS in rural areas by 2030, with considerations for technical sustainability—including climate resilience, and environmental protection, as well as institutional and financial sustainability for the urban and rural WSS.
4. As one of the first pilot state owned enterprise reforms initiative, UWSCG implements the Statement of Corporate Intent that will include an approved company business plan. The business plan will include cost reduction and revenue enhancement measures, and tariff rationalization actions to achieve the operating ratio of at least 1 by 2023 from 1.45 in 2019.
5. UWSCG amends the existing company charter to detail responsibilities, rights, and obligations of the Director, particularly for day to day management of UWSCG, Supervisory Board, Human Resources Reforms Committee and Change Management Committee.
6. UWSCG Supervisory Board approves a corporate restructuring plan encompassing streamlined headquarter business units, regional offices, and service centers with a focus on geographical delineations based on river basins and integrated water resources management.
7. UWSCG enters into performance agreements with (i) regional offices and service centers and (ii) MRDI. The performance agreements will include roles and responsibilities of the parties, key performance indicators, and incentives.
8. UWSCG (i) adopts (a) Asset Management Policy and (b) Nonrevenue Water Reduction Strategy 2021–2025 to progressively reduce nonrevenue water reduction to at most 47% in 2025 from 77% of the water supplied in the network in 2019, and (ii) initiates implementation of the Metering Program.

9. UWSCG adopts an Human Resource Management Development Plan, and implements (i) salary, compensation and benefits reviews, (ii) staff performance management system, (iii) incentive and recognition programs, (iv) gender equality policy provisions to address specific needs of women staff, such as maternity leaves, among others, and (v) workforce rationalization through timely retirement, voluntary or involuntary early retirement, retrenchment (performance and personnel-driven) and re-training programs for minimum 200 UWSCG's staff development and training annually.

10. UWSCG adopts a Water Safety Plan for the cities with a population of 20,000 or more to facilitate emergency responses to disasters, including from virus pandemics and higher likelihood and frequency of waterborne diseases induced by climate change, following the World Health Organization Water Safety Manual (2005 as amended from time to time).

11. UWSCG submits PSP and PPP road map and WSS PSP or PPP project pipeline to MRDI for approval. The WSS PSP or PPP project pipeline will include information on a list of priority PSP or PPP projects, rationale, location, scope, estimated capital expenditure, and potential source of revenues.

## **SCHEDULE 4**

### **Program Implementation and Other Matters**

#### Implementation Arrangements

1. The Ministry of Finance as the Program Executing Agency shall be responsible for the overall Program implementation. The Program Implementing Agencies shall be responsible for the day-to-day implementation of the Program.

#### Policy Actions and Dialogue

2. The Borrower, through the Program Implementing Agencies, shall ensure that all policy actions adopted under the Program, as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program.

3. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.

#### Use of Counterpart Funds

4. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

#### Governance and Anticorruption

5. The Borrower, the Program Executing Agency, and the Program Implementing Agencies shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

#### Monitoring and Review

6. The Borrower, through the Program Implementing Agencies, shall provide ADB with the opportunity to review and comment on relevant studies, decrees, orders, rules and regulations under their respective agencies which may likely impact the objectives and implementation of the Program.