



# Georgia: Urban Services Improvement Investment Program - Tranche 3

Project Name	Urban Services Improvement Investment Program - Tranche 3	
Project Number	43405-025	
Country / Economy	Georgia	
Project Status	Active	
Project Type / Modality of Assistance	Loan	
Source of Funding / Amount	<b>Loan 3078-GEO: Urban Services Improvement Investment Program - Tranche 3</b>	
	Asian Development Fund	US\$ 98.00 million
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth	
Drivers of Change	Gender Equity and Mainstreaming Governance and capacity development	
Sector / Subsector	<b>Water and other urban infrastructure and services</b> / Urban sanitation - Urban water supply	
Gender	Effective gender mainstreaming	
Description	<p>Project 3 will improve the water supply and sanitation (WSS) services in Ureki, Kutaisi, Gudauri, Telavi, and Abasha. Civil works under Project 3 will complement those under Project 1 and 2.</p> <p>Component 1: Infrastructure Improvement</p> <p>The first component will support infrastructure investments to rehabilitate, improve, and expand WSS facilities in Ureki, Kutaisi, Gudauri, Telavi, and Abasha and benefit approximately 10,000 people by the end of the project period. For Ureki, Project 3 covers the works on sewerage system and wastewater treatment plant, while the works on the water intake and water transmission distribution system are covered by other tranches. For Kutaisi, Project 3 covers the works on the strengthening of water supply system and includes the construction of three reservoirs, two pumping stations and the corresponding transmission mains and water distribution network. Specific investment include the following:</p> <ul style="list-style-type: none"><li>- rehabilitation of the Kvitiri and Mukhnari pumping stations,</li><li>- construction of two small collector reservoirs at Partskhanakanebi and Mukhnari pumping stations,</li><li>- extension of TV Tower reservoir by 1,000 m</li></ul> <p>,</p> <ul style="list-style-type: none"><li>- construction of the New East reservoir with a volume of 2 x 4,000 m</li></ul> <p>,</p> <ul style="list-style-type: none"><li>- reconstruction of existing Kldiashvili reservoir (Volume 600 m</li></ul> <p>),</p> <ul style="list-style-type: none"><li>- rehabilitation of the part of the network that was not included in Project 1:</li><li>- construction of 11 km transmission mains connecting the reservoirs to the pumping stations and the distribution network, and</li><li>- laying of about 158 km distribution lines.</li></ul> <p>Project 3 covers also the works for sewerage system and wastewater treatment plant in Gudauri, and the works for the water supply system in Telavi and Abasha.</p> <p>Component 2: Institutional Effectiveness</p> <p>The second component will include: (i) strengthening human resource development and skills and institutional capacity for retraining of water sector professionals; (ii) rolling out of a geospatial water supply and sewerage management system in cities operated by UWSCG; and (iii) Project implementation support for project implementation and management through consultants to support the Investment Program Management Office (IPMO), and capacity development and training.</p>	

The Urban Services Improvement Investment Program (the Investment Program) will improve water supply and sanitation (WSS) services in Georgia's urban centers, which includes provincial capitals, secondary towns and economically important towns. The Investment Program will include (i) infrastructure improvement to rehabilitate, improve, and expand WSS services; (ii) enterprise resource planning and management to improve the service utility's efficiency and sustain investments in the long-term; and (iii) Investment Program management and implementation support.

Georgia has a population of 4.43 million and serves as an important nodal point for inter-regional trade flows connecting the South Caucasus and landlocked Central Asia with the Black Sea and Mediterranean basins. The country's gross domestic product (GDP) is \$10.5 billion with an annual growth of 5.9% (2004-09). Its economy is based on remittances, metal export and trade that constitute 75.3% of the country's own revenues sources (\$2.78 billion in 2009).

The 2008 war with Russia and the global financial crisis had a significant impact on the country's economy. To overcome the slowdown, Georgia implemented deep and far-reaching structural and institutional reforms aimed at improving overall economic management, raising the country's competitiveness through attractive business climate, strengthening safety nets and upgrading dilapidated infrastructure and municipal services.

However, recovery has been slower than anticipated. While the real GDP growth rate for 2010 is projected at 4.5%, an increase from 2.3% in 2008 and -3.9% in 2009, revenue shortfalls continue to exert pressure on public expenditures. Preliminary foreign direct investment (FDI) in the first half of 2010 was \$273 million (down by 6.4% year-on-year) but is showing signs of improvement. Main sectors that attract FDI are real estate, industry, construction, and transport and communications. Unemployment continues to remain high at 16.9% (2% higher than 2008) and is a major concern. In 2010, around 21% of the country's population lived in poverty and 8.8% in extreme poverty. A 2009 UNICEF survey on Social Welfare Monitoring also found that poverty was concentrated in secondary towns. Further, the survey found poverty incidences were high among female-headed households (25%).

As one measure to enhance revenues and economic growth and alleviating poverty, the government has increased its emphasis on regional development through targeted social and physical infrastructure investments. The government's economic growth strategy draws from the Program of the Government of Georgia (2008-12) and includes development and expansion of the Batumi port and a free industrial zone at Poti (along the Black Sea Coast and of strategic geospatial importance), improvement of road and rail linkages across the country, establishment of agro-processing industries in select urban centers to capitalize on agriculture produce and build on the farm to market principle, and development of tourist centers along the Black Sea coast and the Svaneti and Kazbegi regions.

To address imminent pressures on physical infrastructure, the Ministry of Regional Development and Infrastructure (MORDI) has undertaken various initiatives, and in particular, interventions to improve water supply and sanitation (WSS) across the country. Government spending itself is insignificant and in 2009, MORDI spent only \$10 million for water supply and \$1 million for sewerage improvements in the country - a mere 0.1% of its GDP - while donors provided bulk of the funding for WSS improvements; approximately \$350 million to date. To date, donor financing in the WSS sector is approximately \$350 million. Funds were channeled through the MDF with onlending to local governments. Investments in the past were spread thin across all local bodies in the country. Consequently, service efficiency was not significantly improved though sections of ageing or dilapidated infrastructure were rehabilitated or replaced. As a result, the Government felt the need to comprehensively improve services in priority towns through future donor funds.

WSS services are now provided by three service utilities (i) Georgia Water and Power Company (GWPC) that serves Tbilisi and Rustavi (31.8% of country's population); (ii) Batumi Water Company and Adjara local self-governments that serves the Adjara Autonomous Region (8.6% of country's population); and (iii) United Water Supply Company of Georgia LLC (UWSCG) that serves the rest of the country (58.5% of country's population). The State Commission on Water Supply and Energy (SCWSE) provides policy direction, and the Georgia National Energy and Water Regulatory Commission is responsible for economic regulation.

Most economic growth centers proposed for development by the government are in the region served by UWSCG. In this region, only 69.7% urban population has piped water supply and 15.5% urban population has access to sewerage system. Sewage from the reticulated network is discharged directly into streams or water channels without any treatment. The Investment Program socioeconomic surveys (which included an assessment of WSS coping strategies and willingness to pay) indicate that WSS services are irregular and severely affect the poor and internally displaced persons. Households headed by women account for 23.4% of Investment Program beneficiary households. Sick days due to waterborne illnesses are also higher for women (12) than for men (5).

UWSCG is a fledgling organization and is currently refining its business processes with donor assistance. UWSCG's financial management requires significant improvement - revenue collections are 72% (49% residential and 94% non-residential) for the first half of 2010, and for the same period its revenue is \$3.62 million and expenditure is \$6.65 million requiring a 50% government subsidy. Average residential WSS tariffs set by the Georgia National Energy and Water Supply Regulatory Commission (GNEWSRC) for 2010 is \$0.15/cum while UWSCG's tariff estimates based on revenue recovery is \$0.21/cum. Clubbed with poor collection efficiency, the gap is expected to widen over time if adequate revenue enhancement measures are not implemented expeditiously.

The Urban WSS Policy for UWSCG reflects the government's development agenda and aims to provide quality WSS services to all urban population by 2020 - ensuring technically, financially and institutionally sustainable services (see Appendix 2, Problem Tree Analysis). Consequently, the investment plan estimates to achieve the objectives are \$1.6 billion. The sector road map being developed indicates the actions, institutional responsibilities, and timelines to meet the development agenda - it builds on cross-cutting issues that include planning, core service delivery and asset management, institutional development, financial management, legislations and regulatory actions.

The proposed Investment Program fits within the overall growth context and the efforts underway to match infrastructure with the emerging needs. It will focus on improving WSS services in priority towns of Kutaisi, Poti, Marneuli, Zugdidi, Anaklia and Mestia, and benefit approximately 335,000 persons (38% of urban population in UWSCG region). It will also comprehensively improve WSS services in the selected economic centers rather than spreading thin the investments and diluting the impact. The Investment Program is consistent with the government's agenda to improve WSS service delivery through effective implementation of legal, economic, and financial frameworks for local self-governance.

Project Rationale and  
Linkage to  
Country/Regional Strategy

Impact

Improved health of residents in the urban centers of Ureki and Kutaisi

## Project Outcome

Description of Outcome Improved water supply and sanitation services in the urban centers of Ureki and improved water supply services in the urban centers of Kutaisi

Progress Toward Outcome -

### Implementation Progress

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Description of Project Outputs Water supply system efficiency improved through rehabilitation, replacement, and coverage expanded in Ureki and Kutaisi  
Geospatial WSS utility management systems operationalized  
Sewerage and sanitation system efficiency improved through rehabilitation, reconstruction, and coverage expanded in Ureki  
Management capacity of UWSCG enhanced

Status of Implementation Progress (Outputs, Activities, and Issues) Civil Works in Ureki and Kutaisi are ongoing. Procurement of works in Gudauri and Telavi are expected to be completed in 2018. Asset inventory and mapping of the networks are still in process and will likely continue until the closure of the MFF to include the networks in all tranches. Construction of sewerage system in Ureki is on-going. Construction of treatment plant in Ureki is ongoing and near to completion. Recruitment of consulting firm for educational program is ongoing.

Geographical Location Nation-wide, Kutaisi, Ureki

### Safeguard Categories

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Environment B

Involuntary Resettlement B

Indigenous Peoples C

### Summary of Environmental and Social Aspects

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Environmental Aspects 2 IEE reports for Ureki and 1 IEE report for Kutaisi are uploaded. Project 3 is classified B based on these three IEE reports, as it will not have significant irreversible environmental impacts during or after construction. UWSCG will require the contractor to refine and implement the environmental management plan (EMP) prepared in the IEEs, which will also form an integral part of construction contracts. The STP in Ureki is ongoing.

Involuntary Resettlement The government adopted on 17 December 2010 a resettlement framework upon which social safeguards compliance for all projects are based. An involuntary resettlement due diligence was conducted to determine the impacts and consequently project 3 is classified B. A LARP for Ureki town project components is uploaded on ADB website.

Indigenous Peoples The Project will have no expected impacts on Indigenous People.

### Stakeholder Communication, Participation, and Consultation

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During Project Design	At the time of IEE preparation, consultations were undertaken with the stakeholders. A Land Acquisition and Resttlement Framework (LARP) was prepared for the project components in Ureki town in consultation with the displaced persons.
During Project Implementation	Stakeholders will be informed of likely environmental impacts during construction and mitigation measures planned and actually conducted. The public will also be informed of the benefits of improved water supply and sanitation and hygiene/sanitation practices.

## Business Opportunities

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Consulting Services	There is consulting opportunity for design of education program for water and sanitation engineer at Georgian University
Procurement	<p>All procurement of goods and works will be undertaken in accordance with ADB's Procurement Guidelines. Tranche 3 loan includes: (i) three international competitive biddings (ICBs) for procurement of civil works for water supply system in Kutaisi and water supply and sewerage system in Ureki and a wastewater treatment plant in Ureki on Design and Build basis; (ii) two ICB procurement of goods for sewer cleaning vehicle and laboratory equipment.</p> <p>Bidders eligibility will be determined in accordance with ADB's Procurement Guidelines (March 2013, as amended from time to time). Accordingly, no bidder or potential bidder shall be declared ineligible for ADB financed contracts for any reason other than those set out in ADB's Procurement Guidelines. For goods or services funded by loans from ADB's Special Fund resources, payments are limited to goods produced in, and services supplied by, developed member countries that have contributed to such resources and all developing member countries.</p>
Responsible ADB Officer	Tskhvitava, Avtandil
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Georgia Resident Mission (GRM)
Executing Agencies	<i>Ministry of Regional Development and Infrastructure of Georgia</i>

## Timetable

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Concept Clearance	-
Fact Finding	-
MRM	07 Nov 2013
Approval	05 Dec 2013
Last Review Mission	-
Last PDS Update	27 Sep 2018

## Loan 3078-GEO

## Milestones

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Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
05 Dec 2013	19 Dec 2013	17 Mar 2014	30 Jun 2018	29 Mar 2024	-

Financing Plan		Loan Utilization			
	Total (Amount in US\$ million)	Date	ADB	Others	Net Percentage
Project Cost	116.00	Cumulative Contract Awards			
ADB	98.00	15 May 2024	80.29	0.00	90%
Counterpart	18.00	Cumulative Disbursements			
Cofinancing	0.00	15 May 2024	80.08	0.00	90%

### Status of Covenants

Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	Satisfactory	Satisfactory	Satisfactory	Partly satisfactory	-	Satisfactory

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