



Project Data Sheet

Project 43405-024

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|---------------------------------------|--|--|
| Project Name | Urban Services Improvement Investment Program - Tranche 2 | |
| Project Number | 43405-024 | |
| Country / Economy | Georgia | |
| Project Status | Closed | |
| Project Type / Modality of Assistance | Loan | |
| Source of Funding / Amount | <u>Loan 2807-GEO: Urban Services Improvement Investment Program - Tranche 2</u> Asian Development FundUS\$ 40.00 million | |
| Strategic Agendas | Environmentally sustainable growth Inclusive economic growth | |
| Drivers of Change | Gender Equity and Mainstreaming Governance and capacity development Private sector development | |
| Sector / Subsector | Water and other urban infrastructure and services / Urban sewerage - Urban water supply | |
| Gender | Some gender elements | |
| Description | <p>Project 2 of the Investment Program will improve WSS services in Anaklia and Mestia. The outcome of project 2 is improved access to WSS infrastructure in Anaklia and Mestia.</p> <p>Component 1: Infrastructure Improvement</p> <p>The first component will support infrastructure investments to rehabilitate, improve, and expand WSS facilities in Anaklia and Mestia, and benefit approximately 8,000 permanent residents of the areas and 20,000 tourists by the end of the project period. This translates to approximately 2.4% of the population benefited by the investment program. Project 2 includes construction of 67 km water network, 76 km of sewer network, and a 4.3 MLD STP. The WSS infrastructure will improve the quality of life in the two towns and cater to an ultimate design population of 50,000 persons including tourists by 2040.</p> <p>Component 2: Institutional Effectiveness</p> <p>Financial management, accounting, and institutional development targets will focus on service centers in Anaklia and Mestia. The activities under this component are financed by the tranche 1 loan.</p> <p>Component 3: Project Implementation Support</p> <p>Project implementation support financed through tranche 1 of the MFF will provide construction supervision oversight of works under project 2. A Construction Supervision firm recruited under project 1 will oversee the supervision of WSS system and the STP planned under project 2. Similarly, the public awareness program undertaken under project 1 will help achieve targets in Anaklia and Mestia, under project 2.</p> | |

Project Rationale and
Linkage to Country/Regional
Strategy

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 (para 5) 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 supports ADB's interim operational strategy (2008-09) objectives, which 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 Outcome

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|-------------------------|--|
| Description of Outcome | Improved water supply and sanitation services. |
| Progress Toward Outcome | - |

Implementation Progress

| | |
|---|---|
| Description of Project Outputs | <p>Infrastructure Improvement</p> <p>Water supply system efficiency improved through rehabilitation and replacement, and coverage expanded</p> <p>Sewerage and sanitation system efficiency improved through rehabilitation and reconstruction, and coverage expanded</p> |
| Status of Implementation Progress (Outputs, Activities, and Issues) | <p>Water supply system and sewerage system in Mestia are completed.</p> <p>Water supply system in Anaklia is completed.</p> <p>Construction of water supply system and sewerage system in Ureki is ongoing and expected to be completed January 2019.</p> <p>Wastewater treatment plant in Anaklia is completed and to be commissioned.</p> |
| Geographical Location | Anaklia, Bakuriani, Mestia, Ureki |

Safeguard Categories

| | |
|--------------------------|---|
| Environment | B |
| Involuntary Resettlement | B |
| Indigenous Peoples | C |

Summary of Environmental and Social Aspects

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|--------------------------|---|
| Environmental Aspects | IEEs for Anaklia and Mestia WSS networks uploaded |
| Involuntary Resettlement | IR due diligence reports for Anaklia and Mestia WSS networks uploaded |
| Indigenous Peoples | Projects under the tranche have no social impacts. In addition, in Georgia, there are no officially defined ethnic minorities nor groups with features set for IP by the ADB safeguards policies. |

Stakeholder Communication, Participation, and Consultation

The potential initial stakeholders include urban communities, private sector, local self governments, civil society organizations, Municipal Development Fund, UWSCG, and the Ministry of Regional Development and Infrastructure (MRDI).

Extensive consultations will be undertaken with stakeholders including beneficiary communities (men and women separately), nongovernment organizations (especially women NGOs working in the IP geographic areas) and community-based organizations, elected representatives (such as city councils), local self governments, and representatives of various central Government ministries. Consultation workshops, meetings, focus group discussions, and structured interviews will be undertaken with stakeholders. A consultation and participation (C&P) plan will be prepared and shall broadly address three distinct components: (i) community awareness and participation; (ii) hygiene and sanitation education; and (iii) utility management. A major feature of the proposed enterprise resource management component of the proposed IP is to facilitate a participatory approach to water supply and sanitation development and service delivery. Implementation support may include the provision of social and community development experts within the UWSCG and the implementation of community awareness programs by civil society organizations. Ongoing consultation and participatory monitoring may take the form of annual surveys, combined with community forums or focus group discussions. The media for this public information mechanism may include local television, newsletters, and community meetings.

During Project Design

Gender Consultant in coordination with UWSCG have been engaged to accomplish the following:

(i) Conduct focus group and reveal knowledge gaps of households (especially of women as household water main users and managers) regarding water, hygiene, sanitation and customer rights; (ii) Present gender analysis to the stakeholders; (iii) Develop information campaign that will cover detailed plan of PR campaign activities; (iv) Publish and disseminate flyers containing information on projects as well as efficient water use, basic hygiene and sanitation issues and consumer rights; (v) Conduct trainings for majority female members of the communities on hygiene, sanitation practices, customer rights and efficient water use. The draft report was submitted in 2016.

During Project Implementation

Business Opportunities

The government will follow ADB's policies including the Guidelines on the Use of Consultants during Investment Program implementation. To facilitate timely implementation, ADB has approved advance contracting and retroactive financing of some preliminary eligible expenditures, which currently include recruitment of design engineering consultants and procurement of vehicles and equipment. Detailed engineering design consultants were appointed by UWSCG in October 2010 to design WSS systems in the six Investment Program towns. UWSCG will also procure WSS vehicle and maintenance equipment in 2010 to be retroactively financed.

Consulting Services

The Investment Program will follow ADB's Procurement Guidelines (2010, as amended time to time) and tranche 2 loan includes: (i) two international competitive bids (ICBs) for procurement of civil works for water supply and sewerage network in Anaklia and Mestia; and (ii) one ICB for procurement of plant (design, build, and operate) for sewage treatment plant in Anaklia. An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

Procurement Bidders eligibility will be determined in accordance with ADB's Procurement Guidelines (2010, 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 r 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.

Responsible ADB Officer Katsitadze, Murman

Responsible ADB Department Central and West Asia Department

Responsible ADB Division Georgia Resident Mission

Executing Agencies *Ministry of Regional Development and Infrastructure of Georgia*

Timetable

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|---------------------|-------------|
| Concept Clearance | - |
| Fact Finding | - |
| MRM | 24 Oct 2011 |
| Approval | 23 Nov 2011 |
| Last Review Mission | - |
| Last PDS Update | 28 Sep 2018 |

Loan 2807-GEO

Milestones

| Approval | Signing Date | Effectivity Date | Closing | | |
|-------------|--------------|------------------|-------------|-------------|-------------|
| | | | Original | Revised | Actual |
| 23 Nov 2011 | 01 Dec 2011 | 19 Dec 2011 | 30 Jun 2017 | 29 Mar 2021 | 21 Sep 2021 |

Financing Plan

Loan Utilization

| Total (Amount in US\$ million) | | Date | ADB | Others | Net Percentage |
|--------------------------------|-------|----------------------------|-------|--------|----------------|
| Project Cost | 46.00 | Cumulative Contract Awards | | | |
| ADB | 40.00 | 08 Dec 2022 | 33.65 | 0.00 | 100% |
| Counterpart | 6.00 | Cumulative Disbursements | | | |
| Cofinancing | 0.00 | 08 Dec 2022 | 33.65 | 0.00 | 100% |

Status of Covenants

| Category | Sector | Safeguards | Social | Financial | Economic | Others |
|----------|--------|------------|--------|-----------|----------|--------|
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Rating Satisfactory Satisfactory - Satisfactory - Satisfactory

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