

SECTOR ASSESSMENT (SUMMARY): WATER SUPPLY AND SANITATION

A. Sector Performance, Problems, and Opportunities

1. Institutional Arrangements

1. The State Commission on Water Supply and Energy provides policy direction for the water supply and sanitation (WSS) sector, and the Ministry of Regional Development and Infrastructure (MRDI) provides policy and investment guidance and is responsible for sector administration. Economic regulation of the sector is by the Georgia National Energy and Water Regulatory Commission, and environmental regulation by the Ministry of Environmental Protection and Natural Resources. The Ministry of Agriculture is responsible for assessing drinking water quality.

2. WSS services are provided by three service utilities:

- (i) the Georgia Water and Power Company, which serves the cities of Tbilisi and Rustavi, covering 31.8% of the country's population, and manages the Gardabani, Mskheta, Rustavi, and Tbilisi, water companies, which were privatized in June 2008;
- (ii) Batumi Water Company, Kobuleti Water Company, and Adjara local self-governments that serve the Adjara Autonomous Region, with 8.6% of the country's population; and
- (iii) United Water Supply Company of Georgia Limited Liability Company (UWSCG), which serves the rest of the country, with 58.5% of the population. During 2009–2010, institutional reforms in the sector saw the amalgamation of 66 water companies across the country and the formation of UWSCG.

3. UWSCG is a limited liability company wholly owned by the state of Georgia, represented by the Ministry of Economy and Sustainable Development (MESD), and managed day to day by its own management team.¹ Under an agreement between MESD and MRDI, MESD has transferred to MRDI a range of higher-level management rights that MESD has as owner of UWSCG, representing the state.² Although it is a separate legal entity, UWSCG is, as a result of this agreement, effectively controlled by MRDI, to which it reports. The bulk of UWSCG's WSS land, buildings, reservoirs, intake structures, water and sewerage networks, pumping stations, and other assets were previously owned by small municipal water companies. Reforms commenced in 2009 saw the state transfer these assets to UWSCG in 2010.³

¹ UWSCG was established in January 2010 under the Law of Georgia on Entrepreneurs. As of 31 December 2010, it had a capitalization of \$43 million. UWSCG has three organizational tiers: a central office, six regional branches, and 56 service centers covering 54 cities and towns.

² An agreement between MESD and MRDI, dated 5 November 2010, on transfer of management rights from MESD to MRDI is pursuant to Article 43 of the Law on State Property; Presidential Decree 978, dated 11 October 2010; and Regulation 1367 of the Government of Georgia, dated 22 October 2010. These "partnership rights" are a wide range of powers outlined in the agreement and UWSCG charter and include the right to approve annual budgets and make contributions to the capital of UWSCG. However, UWSCG's net revenue accrues for the benefit of the consolidated revenue of the state of Georgia and not to MRDI's departmental budget.

³ In 2009, the assets were consolidated into two large state-owned water companies before subsequently being transferred to UWSCG under Decree of the Minister for Economic Development 1-1/13, dated 14 January 2010. UWSCG continues to receive transfers of various WSS sector assets from the Georgian Municipal Development Fund, some of which were financed by other international financial institutions.

2. Access to Services

4. Most economic growth centers proposed for development by the government are in the region served by UWSCG, as are investment program towns. UWSCG statistics indicate that 69.7% of the urban population has piped water supply, and 15.5% is connected to a sewerage system. The policy and advisory technical assistance socioeconomic surveys (which included assessments of WSS coping strategies and willingness to pay) indicate that WSS services are irregular and severely affect the poor and internally displaced. WSS service issues include the following:

- (i) About 64% of customers served by UWSCG experience intermittent service, as only 25% of the service centers provide continuous, 24-hour water supply. Of those with access to pipe water, almost half receive water only 3–4 days per week for 2–4 hours per day.
- (ii) Coping strategies to overcome shortcomings in water supply include purchasing storage tanks and water pumps and digging wells or boreholes. Average water costs are GEL2.5 per month.
- (iii) Functional central sewerage systems serve 38.2% of households. Sewage from the reticulated network is discharged untreated directly into streams or water channels, and large towns lack functional sewage treatment plants.

3. Financial Management

5. Government financing to improve WSS infrastructure is insignificant. In 2009, MRDI spent only \$10 million to improve water supply and \$1 million to improve sewerage nationally—a mere 0.1% of gross domestic product. Development assistance largely finances improvements in WSS, which commenced in 1995 with the World Bank's Social Infrastructure Development Project. The first assistance of the Asian Development Bank (ADB) in the sector was in 2008 through the first Municipal Services Development Project.⁴ Nonlending assistance to the sector came to \$15 million and lending assistance to \$282 million. ADB's lending assistance in the sector has been \$18 million in lending (6.5%) and \$2.15 million in nonlending (14%).

6. World Bank and ADB assistance aimed to improve dilapidated WSS infrastructure in towns across the country, while German development cooperation through KfW and assistance from the European Bank for Reconstruction and Development, Millennium Challenge Georgia, and the Swedish International Development Cooperation Agency targeted improving WSS infrastructure in the major cities. Funds were channeled through the Municipal Development Fund (MDF)⁵ for onlending to local governments. However, 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.

7. Analyzing the fiscal status of UWSCG is important because of its role as the investment

⁴ ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Municipal Services Development Project*. Manila (Loan 2441-GEO, for \$40 million, approved on 12 September).

⁵ MDF is a legal entity under a public law established by a presidential decree under the state program for municipal sector development. MDF has been the implementing agency for externally financed projects in the WSS and municipal sector to date, and currently reports to MRDI. It mobilizes funds from international finance institutions, donor agencies, and the national and local governments of Georgia. A supervisory board established by a government decree and headed by the Prime Minister is responsible for MDF management. MDF's projected annual turnover for 2010 is \$216 million.

program's implementing agency. Its 2010 approved revenue budget is \$19.5 million, with nondomestic consumers accounting for 67% of the tariff revenues and domestic consumers accounting for 33%. UWSCG's revenue collection efficiency in the first half of 2010 was 72% (49% domestic and 94% nondomestic), with the poor performance attributed to customers' nonpayment of tariffs in response to poor WSS services. The expenditure budget for 2010 balances with the revenue budget, but expenditure is constrained by the limited funds available to the UWSCG and does not reflect the actual costs of providing efficient WSS services.

8. The average domestic WSS tariff set by the Georgia National Energy and Water Supply Regulatory Commission since 2010 is \$0.15 per cubic meter, despite UWSCG's estimating that cost recovery requires a tariff of \$0.21 per cubic meter. With poor collection efficiency, the operating ratio is expected to increase over time if adequate revenue enhancement is not implemented expeditiously.

9. UWSCG's institutional effectiveness is severely constrained by the lack of technical and skilled staff to manage the service. Adequate technical, managerial, and operational training and capacity building are required to improve service efficiency. The lack of adequate finances to improve WSS infrastructure further hampers service improvement.

B. Government's Sector Strategy

10. To address the problems and constraints prevalent in the urban WSS sector associated with technical sustainability and environmental protection, institutional and financial sustainability, and enabling legal and regulatory frameworks, MRDI has developed an urban WSS sector development plan (SDP)⁶ with a vision to ensure continuous and reliable water supply and safe sanitation services to all of Georgia's urban residents by 2020.⁷

11. The SDP's objectives include the following:

- (i) **Technical sustainability and environmental protection.** (a) Provide WSS infrastructure to progressively achieve full water supply and sanitation service coverage of all urban households; (b) Ensure the implementation of asset management and strengthen programs for better operation and maintenance of WSS infrastructure that enables efficient service delivery; and (c) Introduce appropriate mechanisms to maintain drinking water quality standards, promote the treatment of domestic and industrial effluents, protect water resources from pollution and unlicensed extraction, and generally protect the environment.
- (ii) **Institutional and financial sustainability.** (a) Improve the institutional effectiveness of service utilities by implementing an enterprise resource management plan, encouraging public-private partnerships, and undertaking a customer outreach program to bring about fiscal health in service utilities and improved hygiene and sanitation in urban households; and (b) Improve sector

⁶ This document lays out the government's strategic vision and objectives for the urban WSS sector with a particular emphasis upon problems and constraints from the perspective of UWSCG. This approach is adopted because UWSCG covers 90% of the country's geographical area, including economically strategic urban centers, and 60% of the population.

⁷ ADB. 2010. *Technical Assistance to Georgia for Developing an Urban Water Supply and Sanitation Sector Strategy and Regulatory Framework*. Manila. ADB provided policy and advisory technical assistance to help the government develop an urban WSS policy, sector strategy, investment plan, and road map for long-term sector development.

governance by making service utilities' financial management, operations, and commerce more efficient.

- (iii) **Enabling legislative and regulatory framework.** Provide an enabling legal and regulatory framework for WSS services covering economics, quality of service delivered, the environment, and health, and strengthen the capacity of the Georgia National Energy and Water Supply Regulatory Commission to effectively monitor and enforce quality of service and approve tariffs, the Ministry of Environmental Protection and Natural Resources to monitor the environment, and the Ministry of Agriculture to monitor drinking water quality.

12. To achieve the vision and objectives laid out in the SDP, the government's investment plan for urban WSS includes physical and other investments. Physical investments will address technical sustainability and environmental protection objectives, while other investments address institutional and financial sustainability and enabling legislative and regulatory framework objectives. By providing fiscal space for these investments, the government will ensure that WSS services are improved and adequately regulated to ensure that delivery standards are met. These investments are estimated is at \$1.65 billion (Table 1) and address medium-term (2011–2015) and long-term (2016–2020) needs.

Table 1: Urban Water Supply and Sanitation Investment Plan Estimates
(\$ million)

Item	2011–2015	2016–2020	Total	Share of Total (%)
Infrastructure improvement	1,285.00	285.00	1,570.00	95.44
Institutional effectiveness	15.00	5.00	20.00	1.22
Project management	45.00	10.00	55.00	3.34
Total	1,345.00	300.00	1,645.00	100.00

Sources: United Water Supply Company of Georgia and Asian Development Bank estimates.

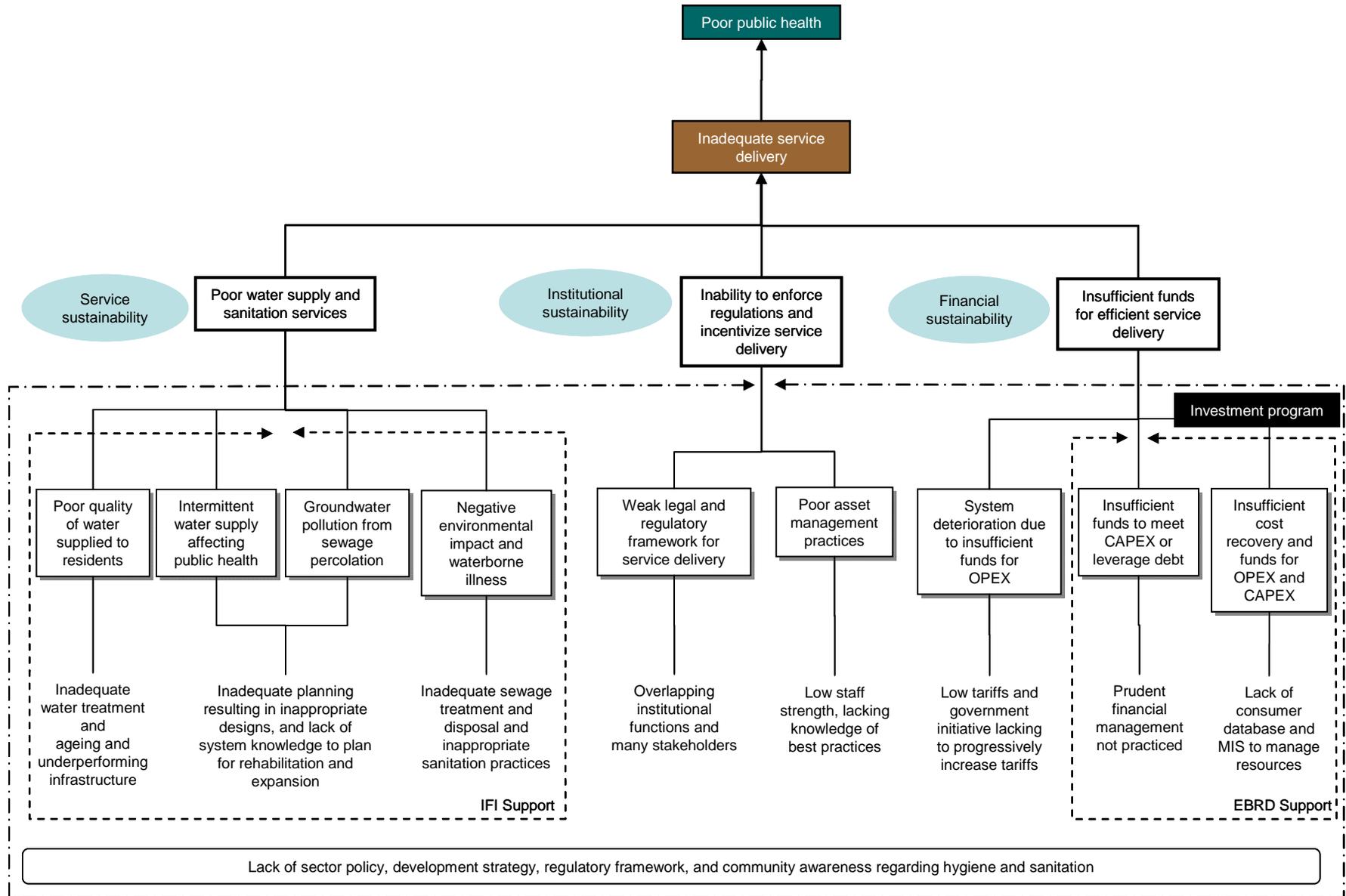
C. ADB Sector Experience and Assistance Program

13. ADB's engagement in Georgia's WSS sector began only recently, in 2008, with the Municipal Services Development Project (MSDP). The first MSDP was implemented by the MDF and was a financial intermediary loan. The first MSDP and second MSDP have performed extremely well, with cumulative contract award and disbursement under the first MSDP loan of \$40 million being, at midterm in July 2010, \$32.83 million (86% of the loan) and, under the second MSDP, \$34.30 million (90% of the loan).

14. The investment program will support implementing the SDP and improve the institutional effectiveness of organizations and their service delivery. It will improve WSS services in the priority secondary towns of Anaklia, Kutaisi, Marneuli, Mestia, Poti, and Zugdidi, benefiting 335,000 residents, or 38% of the urban population in the UWSCG region.⁸ The investment program supports the objectives of ADB's interim operational strategy (2008–2009), which are consistent with the government's agenda to improve WSS service delivery by effectively implementing legal, economic, and financial frameworks for local self-governance. The outcome of the investment program is improved WSS services in the six secondary towns.

⁸ Kutaisi and Poti are being developed as special economic or free industrial zones, Marneuli and Zugdidi have agro-processing industries and potential for developing markets for agricultural produce, and Mestia and Anaklia are being developed as tourist centers.

Problem Tree for Water Supply and Sanitation



CAPEX = capital expenditure, EBRD = European Bank for Reconstruction and Development, IFI = international financial institutions, OPEX = operating expenditure

Sector Results Framework (Water Supply and Sanitation, 2011–2020)

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Sector Outcomes with ADB Contribution	Indicators with Targets and Baselines	Sector Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
Improved health of residents in urban centers and secondary towns	<p>Average annual household expenditure on treating waterborne illness reduced by 25%</p> <p>100% of urban residents with access to improved drinking water by 2020, from 88% in 2010</p> <p>100% of urban residents with access to improved sanitation by 2020, from 67% in 2010</p>	<p>Water supply systems rehabilitated, replaced, expanded, and well managed</p> <p>Sewerage and sanitation systems rehabilitated, replaced, expanded, and well managed</p>	<p>Regular and potable water supplied to households already connected and new ones</p> <p>2,400 km of water supply pipes installed or upgraded in the area covered by UWSCG</p> <p>100% of wastewater and sewage generated in secondary towns treated in 2020, from 0% in 2010</p> <p>1,200 km of sewer pipes installed or upgraded in the area covered by UWSCG</p>	<p>Planned key activity areas: None</p> <p>Pipeline projects with estimated amounts: Urban Services Improvement Investment Program (MFF for \$500 million)</p> <p>Ongoing projects with approved amounts: (i) first Municipal Service Development Project (\$40 million), and (ii) Second Municipal Service Development Project (\$30 million)</p> <p>PATA (\$862,500)^a</p> <p>CDTA (\$800,000)^b</p>	<p>Planned key activity area: None</p> <p>Pipeline projects: (i) Water supply and sanitation system rehabilitated or replaced and expanded, (ii) improved institutional effectiveness of UWSCG as service provider and GNEWSRC and MEPNR as regulatory bodies, and (iii) improved project implementation.</p> <p>Ongoing projects: (i) increased quality, coverage, and reliability of water supply, sanitation, solid waste management and road surface improvement; (ii) improved project management capacity; (iii) and improved capacity of municipalities and MDF.</p> <p>PATA: WSS tariff and regulatory framework developed CDTA: GIS-based WSS asset inventory created in investment program towns</p>

ADB = Asian Development Bank, CDTA = capacity development technical assistance, GIS = geographic information system, GNEWSRC = Georgia National Energy and Water Supply Regulatory Commission, km = kilometer, MFF = multitranchise financing facility, MEPNR = Ministry of Environmental Protection and Natural Resources, MDF = Municipal Development Fund, PATA = policy and advisory technical assistance, UWSCG = United Water Supply Company of Georgia, WSS = water supply and sanitation.

^a ADB. 2010. *Technical Assistance to Georgia for Developing an Urban Water Supply and Sanitation Sector Strategy and Regulatory Framework for Georgia*. Manila (TA7492-GEO, for \$862,500, approved on 2 February).

^b ADB. 2010. *Developing a Geospatial Urban Water Supply and Sanitation Utility Management System*. Manila.

Source: Asian Development Bank.