

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM: AUDIT FINDINGS AND DETAILS OF ARRANGEMENT

A. Introduction

1. ADB has classified the Georgian Green Bond Project investment in compliance with ADB's Safeguard Policy Statement (2009) as follows: environment (category B), involuntary resettlement (category C), and indigenous peoples (category C). Safeguard Policy Requirement 4 for general corporate finance project is applicable. The proceeds have been earmarked for the maintenance, rehabilitation and repair of Georgian Water and Power LLC's (GWP) existing water supply network and the installation of new water connections to end users in Tbilisi and neighboring municipalities through the following: (i) \$30 million to finance capital expenditures in the water supply and sanitation business, and (ii) partial refinancing of the TBC Bank corporate loan [\$30 million] to GWP for financing capital expenditures in the water supply and sanitation business. This excludes financing any capital expenditure for upgrades, or repairs of reservoirs, hydropower plants linked to water supply reservoirs (e.g. Bordona, Zhinvali, and Tetríkhevi), water and wastewater treatment facilities, and expansion of water supply and sanitation networks owned by GWP.

2. GWP was incorporated in 1997 as a limited liability company; it was privatized in 2008 and acquired by Georgia Global Utilities JSC (GGU) in 2014. GWP's Tbilisi urban water supply network supplies the city's population of about 507,000 residential and non-residential customers. Water is distributed through a 3,600 kilometer (km) network of steel, iron and polyethylene pipes across five different elevation levels accommodating the 1,000 meter (m) low and high mark differential.

3. GGU operates under an Environment and Social Management System (ESMS) that incorporates elements of GWP's Environment, Health, and Safety (EHS) management system. A corporate audit of GGU and GWP's ESMS' was undertaken by an external third party in accordance with ADB Safeguard Policy Statement (SPS) requirements. In addition, an environmental and social compliance audit was completed for the operational subproject to identify past or present concerns relating to impacts on the environment, involuntary resettlement, and indigenous peoples. The maintenance, rehabilitation, and repair of GWP's existing water supply network as well as the installation of new water connections, will entail trenching of sections of the existing network, mostly along roads in urban Tbilisi and in the surrounding municipalities. The anticipated community and occupational health and safety, pollution, and traffic impacts related to these activities can be readily managed through the procedures detailed in GWP's various EHS management plans. ADB has undertaken due diligence and reviewed the potential environmental and social impacts of the project and the measures to avoid, minimize, mitigate, and compensate for adverse impacts in safeguard reports and plans. The environmental and social measures and the institutional capacity and commitment of GGU and GWP to manage the project's social and environmental impacts are deemed adequate.

B. Corporate Environmental and Social Management System

1. Environmental and Social Policies and Procedures

4. GGU's management of environmental and social risks and impacts associated with the company operations is based on a management system aligned with good international practice. GWP's management system is certified to ISO 9001 (Quality) and ISO 14001 (Environmental) Management Standards.

5. GGU has adopted policies addressing, environmental, social, health and safety, and labor aspects and has implemented a number of environmental and social procedures addressing: (i) ESMS monitoring and reporting; (ii) ESMS planning procedures; (iii) non-conformance preventive and / or corrective action; (iv) emergency preparedness and response; (v) ESMS training, awareness and competence; (vi) ESMS document control and record keeping; (vii) communication and notification; and (viii) stakeholder engagement (including a high level grievance mechanism). These policies and procedures are supported by a number of topic-specific management plans addressing, for example occupational health and safety, community health and safety, water, energy and resources, waste, transport, construction contractors, biodiversity and reinstatement.

6. The corporate ESMS is applied to GGU's subsidiaries, including GWP's operations, with supplementary management plans and procedures developed specifically for each operation.

7. GGU does not have a corporate level screening and planning procedure for land acquisition, access to private land or right of way access. It is committed to avoiding involuntary resettlement in its approach to land acquisition and adopts negotiated settlement for land and right of way access as its default approach. GWP's water pipeline network is located on municipal land within the city's road and lane network; access to infrastructure is undertaken through coordination with the relevant municipal authorities. No physical or economic displacement has resulted from the acquisition of land for any assets since GGU's acquisition of GWP. GGU has committed that the project activities will not require any additional land acquisition. GGU does not have a screening procedure for indigenous peoples. There are no defined indigenous communities within the Tbilisi urban area. There are currently no grievances or legal claims associated with GWP's land acquisition. There are no anticipated impacts on indigenous peoples.

8. GWP has a procedure regulating timelines and methods for prior notice to consumers in case of planned interruptions. GWP uses GGU's 2017 corporate Stakeholder Engagement Plan (SEP) to organize engagements. This plan is not specific to GWP's operations and requires updating. While GWP has numerous avenues through which to receive feedback and complaints from customers and stakeholders affected by repair or rehabilitation work, GWP currently refers to a high-level description of the grievance process in the corporate SEP indicating a lack of procedural detail. The SEP also lacks differentiation or clearly defined processes for worker-related grievances and concerns.

9. GWP has a mature human resources framework that is legally compliant with Georgian labor laws, but specific statements regarding adherence to International Labour Organization core labor standards are incomplete.

2. Organizational Structure and Staffing

10. GGU's Environmental and Social Division, and its Health and Safety Division are responsible for implementing the corporate ESMS. These divisions report to the chief technical officer, who is a member of GGU's management team. In implementing the ESMS, these divisions cooperate with the Human Resources and Administration Department and with other company departments as needed. Environmental and social and health and safety risks are adequately managed and staffed at the corporate and site level commensurate to the scale of operations.

3. Training Requirements and Capacity Building

11. An ESMS Training, Awareness and Competence Procedure has been developed, indicating the type of environmental and social training modules required for each team including indication of training required by technical level in the company. The procedure includes a requirement for ESMS Awareness Training (for leadership positions) and for competency ESMS training (for staff with environmental and social and health and safety responsibilities). GGU has established a training center managed by the Human Resources Department that provides logistics support for training delivery. In 2019 over 830 employees were engaged in technical and operational training, 600 newcomers were trained, and up to 500 staff were retrained in health and safety.

4. Monitoring and Reporting

12. GGU has an Environmental and Social Policy Framework that includes a monitoring program for all its operations. The program describes the parameters to be monitored; the activities; locations; time and frequency of monitoring activities; and the collection, analysis, and reporting of monitoring data. Environmental and social performance is monitored by site-based personnel with environmental and social responsibilities and through scheduled site inspections by the corporate environmental and social management staff. The environmental and social reporting includes the following types of reports: incident and near-miss (reported to corporate environmental and social management within 24 hours of occurrence); inspections (daily construction site reports and twice-monthly operational reports); monthly environmental and social reports (across all company facilities and operations); and external annual (or quarterly) monitoring (e.g. to international lenders).

13. The findings and recommendations of the corporate ESMS audit are summarized below. GGU will commit to the corrective actions prior to ADB's subscription to the green bond issuance and implement them within the timeline of the corrective action plan specified in the audit report.

C. Audit Findings and Recommendations

14. The activities related to the maintenance, repair, and installation of building connections are considered to have minimal potential environmental impacts. GWP's EHS plan has been reviewed and will be enhanced to ensure consistency with applicable national laws and regulations, as well as with ADB Safeguard Policy Statement requirements.

15. GWP will develop a screening and categorization procedure consistent with ADB SPS to ensure exclusion from financing subproject activities that will cause impacts categorized as A for environment, and categories A and B for involuntary resettlement and indigenous peoples. GWP will develop an operation-specific stakeholder engagement plan which reflects the GGU corporate stakeholder engagement planning protocol, and will include relevant themes for engagement and consultation with stakeholders, gender sensitivity through engagement, timelines for engagement, and information disclosure and communication channels. GWP will also develop clear procedures for receiving, managing and resolving grievances for workers, and external stakeholders. GWP will ensure the grievance management processes are communicated to workers, contractors, and stakeholders, as applicable.

16. GWP will update its Human Resources Policies to ensure explicit commitment to the International Labour Organization Core Labor Standards in line with ADB's Social Protection Strategy 2001.

17. The issuer will monitor and report their compliance with ADB's Safeguard Policy Statement and relevant national laws, standards, and guidelines in annual environmental and social performance reports.