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

A. Introduction

1. The Asian Development Bank (ADB) has categorized the investment in compliance with ADB’s Safeguard Policy Statement (2009) as follows: environment (category B), involuntary resettlement (category B), and indigenous peoples (category C). Safeguard Policy Requirement 4 for general corporate finance project is applicable. The proceeds of ADB’s subscription will be earmarked up to (i) $4 million for capital expenditures related to the upgrade of two existing substations; and (ii) $46 million for the partial refinancing of debts (existing Eurobonds) incurred to improve existing railway lines as part of the ongoing modernization project, covering preliminary works, subgrade works, the upgrade of associated infrastructure and electric traction supply lines, and railway track enhancements. The project excludes financing of any tunnel-related works and any capital expenditures, upgrades, or repairs linked to new railway lines.

2. 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 the adverse impacts in the safeguard reports and plans. A corporate audit of Georgian Railway JSC’s (joint stock company) environmental and social management system and an environmental and social (E&S) compliance audit of existing facilities and activities to be financed by ADB were undertaken by an external third party in accordance with ADB’s Safeguard Policy Statement requirements. The environmental and social measures and the institutional capacity and commitment of Georgian Railway to manage the project’s social and environmental impacts are deemed adequate, but enhancements in several areas are required to meet ADB’s requirements.

B. Findings and Recommendations

3. Environment and social management system coverage, screening, categorization, and planning procedures. E&S issues in Georgian Railway are managed through the company’s policies and procedures. Georgian Railway has an environmental and health and safety (EHS) management system, which is supported by guidelines and procedures and a specific EHS policy statement. The EHS policy does not cover specific social issues such as labor, land acquisition and resettlement, and public consultation. However, it was noted that the on-site implementation of the EHS policies and procedures requires strengthening to ensure that the system is compliant with relevant standards and that the resulting safety culture is cascaded to contractors. Georgian Railway does not have a formal system to monitor if contractor labor conditions are compliant with local and national regulations, and International Labour Organization standards. Beyond the requirement to adhere to local environmental regulations and the conduct of environmental assessments for projects, Georgian Railway does not operate with E&S screening procedures to identify the wider set of E&S risks for project planning.

4. Corrective actions. The company will develop a contractor management plan, which will include formal mechanisms for monitoring compliance with labor laws and core labor standards, measures to strengthen the implementation of occupational, safety and health policies and procedures on sites, and construction labor camp accommodation guidelines. Georgian Railway will also enhance its environment and social management system (ESMS) with E&S screening, categorization, and planning procedures to ensure alignment with the requirements of the ADB safeguard policy statement).
5. **Environment and social management system implementation structure.** Implementation of E&S policies and procedures are overseen and undertaken by specific departments within the company. The health, safety, and environment (HSE) department reports directly to Georgian Railway’s general director, an indication of the importance of HSE issues within the company. Responsible for the EHS management system implementation, the department has nine staff members; the audit determined that all managers are appropriately experienced and qualified. Social issues, which are not under the company’s integrated EHS management system, are managed by individual departments, depending on the nature of the activity. Human resource services are overseen by the human resource management services, and communications are overseen by the public relations department. Land acquisition is managed by a dedicated company staff member as project administrator. The construction project management department provides the overall management of construction and/or reconstruction services, appointing managers who are the key points of contact between Georgian Railway and contractors; coordinates the works; provides general oversight of contractors’ works and compliance with the project schedule, Georgian Railway, and national requirements and standards; and ensures reporting back to the company.

6. **Corrective actions.** Georgian Railway will be required to ensure that it has appropriate resources and undertakes the requisite capacity-building program to implement the enhanced ESMS, including provisions for implementing the contractor management plan and managing involuntary economic displacement impacts associated with project activities utilizing ADB funds, grievance handling, and stakeholder engagement.

7. **Monitoring and reporting.** The audit found that the focus of E&S-related monitoring and reporting result from the development of the environmental impact assessments and associated reporting to the authorities, and H&S-related incidents. There is no specific procedure or plan for monitoring contractor performance, land acquisition–related performance, grievance handling, or stakeholder engagement and community relations.

8. **Corrective actions.** Georgian Railway will be required to ensure that each enhanced or developed procedure for E&S performance following the audit will include components for monitoring and reporting, not only for internal performance review but also for continuous improvement and for support for reporting to ADB.

9. **Public consultation, information disclosure, and grievance redress.** Information disclosure, consultation, and participation are based on the requirements of the national environmental impact assessment and its disclosure. Georgian Railway has a public relations department, which oversees general corporate communications. Land acquisition is supported by consultation and negotiations, which is initiated when the environmental impact assessments process determines that land acquisition is required. Project dedicated stakeholder engagement plans have not been developed by Georgian Railway. The audit found that employees and contractors have limited outlets to raise workplace-related grievances. Georgian Railway does not have established procedures requiring contractors to adopt and implement worker grievance mechanisms. Similarly, there are no formal procedures in place to record, investigate community grievances. Current practice is that community members who wish to raise a complaint speak directly to the workers on site.

10. **Corrective actions.** Georgian Railway will develop a grievance mechanism policy and procedure to be adopted by contractors and develop a corporate-level grievance mechanism to collect and manage grievances related to internal and external complaints.
C. Environmental and Social Compliance Audit Findings

11. **Hazardous material management.** The existing facility audit noted the presence of hazardous materials and waste associated with the use of oil containing polychlorinated biphenyl (PCBs), and legacy-use of asbestos, asbestos-containing materials (ACM), and creosote-treated railway sleepers in existing infrastructure.

12. **Corrective actions.** Georgian Railway has an ongoing sampling program to identify equipment that uses oil containing PCBs and will develop a program to phase out the use of PCBs throughout its operations. This will include procedures for handling and storing the waste material. The company will develop an asbestos management plan to avoid, minimize, and mitigate the potential EHS risks associated with the disturbance, removal, or demolition of structures containing asbestos or ACM. A similar management plan will be developed for creosote-treated railway sleepers.

13. **Land acquisition and indigenous peoples.** The modernization project is focused on developing infrastructure on existing and greenfield sites requiring land acquisition and involving involuntary resettlement physical and economic displacement impacts. The audit determined that ADB’s financed activities are on land already owned by Georgian Railway, including rights of way for laying new electricity supply lines, and no land acquisition has been or will be required. Georgian Railway’s title and right to user rights for the land date back to the Soviet period and there are no discernible legacy issues associated with land acquisition and no complaints identified associated with maintenance works requiring access. The approach adopted by Georgian Railway for land acquisition is in line with Georgia’s legislation regarding land acquisition, which includes procedures for notification to land users and owners, asset valuation and compensation calculation for negotiated settlement, and also the right of Georgian Railway to seek expropriation in instances where negotiations fail. All land acquisition for the modernization project has been planned and documented in project-specific resettlement action plans, developed by third-party consultants, in line with national legal requirements. These action plans have also included some additional entitlements such as formalization of informal landholder rights and “moral compensation top ups” for physically displaced households. With regard to project activities where land acquisition has taken place (not financed by ADB), the audit found that land had been acquired in line with government legislation, compensation generally met replacement value, and that there were no outstanding issues identifiable. For infrastructure development for the new track, land acquisition is ongoing, with most households accepting the terms of compensation. Several households have contested land acquisition and these cases remain in court, where Georgian Railway is seeking expropriation. The rejection of compensation relates to the rates of compensation rather than being displaced. Risks remain with regard to works being undertaken on existing infrastructure and the potential to create temporary economic displacement impacts on local land users and occupants. Land acquisition issues do not appear to have a formal stakeholder engagement process or grievance process to support implementation. It is also unclear if the land acquisition process identified any vulnerable households or put in place specific measures to support vulnerable households. The audit determined that there are no indigenous peoples affected by the project and therefore ADB safeguard policy statement on indigenous people are not applicable.

14. **Corrective actions.** Building upon its existing management system and procedures, Georgian Railway will enhance its ESMS by adopting screening, categorization, and involuntary resettlement planning procedures consistent with the requirements of the ADB safeguard policy statement to ensure that (i) all activities financed by ADB are screened and appropriately categorized, (ii) activities screened and categorized as category A are not funded by ADB, (iii)
activities screened and categorized as category B are appropriately managed by Georgian Railway with supplementary plans as required, (iv) appropriate social impact–related expertise is present within Georgian Railway’s ESMS implementation team, and (v) appropriate monitoring and reporting to ADB are undertaken to ensure that ADB requirements are being met and to provide ADB with information regarding impacts associated with the broader (non-ADB financed) land acquisition–related activities. Use of ADB funds will not be committed to activities likely to generate economic displacement until adequate assessment and management planning to avoid, minimize, or compensate have been put in place and cleared by ADB.

D. Conclusion

15. Georgian Railway will (i) apply ADB’s prohibited investment activities list, (ii) ensure that investments using ADB funds comply with ADB’s Safeguard Policy Statement and abide by national laws and regulations, and (iii) strengthen the ESMS to ADB’s satisfaction. The ESMS will set out requirements, as applicable, for compliance with national labor laws and measures to comply with the internationally recognized core labor standards, pursuant to ADB’s Social Protection Strategy (2001).

The ESMS will contain requirements, as applicable, for information disclosure and consultation with project-affected people following ADB requirements. Georgian Railway will report regularly to ADB on (i) its compliance with such laws and (ii) the measures taken.

ADB will continue to closely collaborate with Georgian Railway on the enhancement of its environmental and social management policy and procedures, including those relating to working conditions and accommodation, land acquisition, health and safety, grievance handling, and the management of hazardous materials.

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2 Summary Poverty Reduction (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).