



Concept Paper

Project Number: 51132-002
June 2020

Proposed Loans Georgia: Sustainable Water Supply and Sanitation Sector Development Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 29 May 2020)

Currency unit	–	lari (GEL)
GEL1.00	=	\$0.31402
\$1.00	=	GEL3.18

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
GDP	–	gross domestic product
IMF	–	International Monetary Fund
NRW	–	nonrevenue water
O&M	–	operation and maintenance
PBL	–	policy-based lending
PPP	–	public–private partnership
UWSCG	–	United Water Supply Company of Georgia
WSS	–	water supply and sanitation

NOTE

In this report, "\$" refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 51132-002	
Project Name	Sustainable Water Supply and Sanitation Sector Development Program	Department/Division	CWRD/CWUW
Country	Georgia	Executing Agency	Ministry of Finance, Ministry of Regional Development and Infrastructure of Georgia
Borrower	Georgia		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=51132-002-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=51132-002-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Other urban services		2.00
	Urban policy, institutional and capacity development		100.00
	Urban water supply		13.00
Agriculture, natural resources and rural development	Rural water policy, institutional and capacity development		35.00
		Total	150.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	Medium
✓ Accelerating progress in gender equality			
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		ADB Financing	
✓ Making cities more livable		Adaptation (\$ million)	26.00
✓ Promoting rural development and food security		Mitigation (\$ million)	8.00
✓ Strengthening governance and institutional capacity			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 5.4		Effective gender mainstreaming (EGM)	✓
SDG 6.1, 6.5, 6.a, 6.b			
SDG 9.4			
SDG 11.1, 11.5, 11.a		Poverty Targeting	
SDG 12.2, 12.4		General Intervention on Poverty	✓
SDG 13.a			
4. Risk Categorization:	Complex		
5. Safeguard Categorization		Environment: B Involuntary Resettlement: B Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		150.00	
Sovereign SDP - Program (Regular Loan): Ordinary capital resources		130.00	
Sovereign SDP - Project (Regular Loan): Ordinary capital resources		20.00	
Cofinancing		0.00	
None		0.00	
Counterpart		4.00	
Government		4.00	
Total		154.00	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. The Government of Georgia has requested assistance from the Asian Development Bank (ADB) for the Sustainable Water Supply and Sanitation Sector Development Program.¹ The proposed sector development program (SDP) comprises (i) a policy-based loan (PBL) to support the government's ongoing reforms of governance and institutions to strengthen the sector's performance and financial sustainability while ensuring funding for basic services during a period of severe fiscal constraints; and (ii) a project loan to improve the operational efficiency of the United Water Supply Company of Georgia (UWSCG),² and to enable the government to reach rural populations.

2. The SDP is designed to support the government in its pursuit of a more sustainable sector development approach. The policy actions will increase the sector efficiency and sustainability of the infrastructure investment under the SDP and the government's existing sector investments, including those under ADB's ongoing \$500 million multitranche financing facility.³ It supports six operational priorities under ADB's Strategy 2030—primarily livable cities, climate change, poverty, gender equality, rural development, and governance and institutional capacity.⁴ It is included in ADB's country partnership strategy, 2019–2023 for Georgia and is listed in the country operations business plan, 2020–2022.⁵

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Economic and fiscal outlook.** Georgia is a natural cultural and geo-economic bridge between Asia and Europe. It has a population of 3.7 million people, with 59% living in urban areas. About 40% of the total population lives in the capital, Tbilisi, which contributed 52% of gross domestic product (GDP) in 2019. The government implemented progressive reforms to support international economic integration, and enjoyed robust GDP growth from 2.9% in 2016 to 5.1% in 2019.⁶ Despite Georgia's upper middle-income country status, the living standards are poor—21.9% of the population lives below the poverty line, and access to essential services across regions is limited. Its pro-business policies boosted the service industry, which accounts for 65% of GDP and employs about half of the Georgian workforce, with tourism playing a major role.⁷ The outbreak of the coronavirus disease (COVID-19) and the associated slowdown in tourism and domestic demand will have severe impacts on the Georgian economy. Projections indicate that GDP growth will drop to zero, and per capita GDP growth is expected at -0.2% in 2020.⁸ The International Monetary Fund (IMF) projected GDP growth of -4.0% for Georgia. The latest debt sustainability analysis by the IMF indicates that Georgia's debt levels will remain sustainable in

¹ ADB. 2018. Georgia: [Water Supply and Sanitation Service Improvement Project](#). Manila. The concept paper included a transaction technical assistance of \$750,000 (TA 9603-GEO).

² UWSCG is a limited liability company established on 14 January 2010, and the state owns 100% of the shares.

³ ADB. [Georgia: Urban Services Improvement Investment Program](#). ADB financed 18 water and other urban infrastructure and services projects in Georgia from 2007 to 2019 for a total of \$593 million.

⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

⁵ ADB. 2019. *Country Partnership Strategy: Georgia, 2019–2023—Developing Caucasus's Gateway to the World*. Manila; and ADB. 2019. *Country Operations Business Plan: Georgia, 2020–2022*. Manila.

⁶ Georgia signed an Association Agreement with the European Union in 2014, and implemented anticorruption strategies as well as public administration and tax reforms, liberalized trade policies, and streamlined business regulations; National Statistics Office of Georgia. [GeoStat](#) (accessed 30 April 2020).

⁷ ADB. [Data Library](#) (accessed 28 April 2020). In 2018, tourism and travel accounted for about 34% of GDP.

⁸ ADB. 2020. *Asian Development Outlook*. Manila.

the medium-to-long term. The government requires external support to fill financing gaps in the water supply and sanitation (WSS) sector left by the COVID-19-induced fiscal constraints.

4. **Development constraints.** The sector requires a minimum of \$100 million in annual investment to meet WSS infrastructure and operation and maintenance (O&M) needs.⁹ Between 2011 and 2019, the government invested in major upgrades and the expansion of the urban WSS system, leveraging more than \$800 million in financial support.¹⁰ The sustainable operations of these newly constructed and rehabilitated systems require an overhaul of the sector institutions, particularly the sector regulator and operators, whose performance has been largely ineffective in the absence of robust policy, legal, and institutional frameworks to address structural shortcomings, provide a blueprint for sector priorities and reforms, and expedite the efficient allocation of resources. Strengthening sector institutions will also lay a foundation for new investments, and for greater private sector participation.

5. In 2010, the Cabinet of Ministers consolidated 66 of Georgia's municipal water companies into a single, state-owned holding company, the UWSCG, to build critical mass in investment, management and resources.¹¹ UWSCG manages the largest individual share of WSS assets in Georgia, and is responsible for providing WSS services to 90% of Georgia's geographic area and one-third of the urban population. Despite an expansion in infrastructure, UWSCG's performance lags that of the other licensees.¹² UWSCG operations are hampered by weaknesses in corporate governance, strategy, and organizational structure; a disproportionately high concentration of and preoccupation with large-scale infrastructure works in 2018–2019; and an increasing number of rural WSS projects without adequate means to recover costs. Crucially, UWSCG lacks the financial and technical strength to manage an increased asset base, and also faces new hurdles in human resources and change management. A large and sustained buildup of debt could place a heavy toll on the government if UWSCG continues to be operationally and financially dependent on the government. Enhanced management accountability, autonomy and incentives will help to improve UWSCG's operating and financial environment.

6. Additional key sector challenges include substantially lower coverage, resources, and local government capacity for rural WSS; and a high waste and misuse of water by the public.¹³ These are primarily derived from lack of policy in rural WSS, metering and public communication, as well as low tariff. The government's policy actions will help to overcome these deficiencies while creating an enabling environment for private sector participation. The government will also prepare for national scale rural WSS investments and enhanced UWSCG's O&M capacity, and improve a strategically important and procurement-ready water supply system in Telavi impacted by the COVID-19 pandemic contributing to job creation and economic growth.¹⁴

7. **National priorities for the sector and policy dialogue.** The government's priority is to make its sector investments sustainable and ensure their efficient and optimal use. Despite

⁹ Pre-COVID-19 estimates of the Ministry of Regional Development and Infrastructure and UWSCG.

¹⁰ ADB supports the sector with a \$500 million investment program. Agence Française de Développement, the European Bank for Reconstruction and Development, the European Investment Bank, and German development cooperation through KfW also support UWSCG.

¹¹ Nine licensees are serving 56% of the total population while rural coverage is provided by the municipalities. Four licensees are private; one state- and four municipal-owned companies are responsible for urban WSS.

¹² The average duration of water supply by UWSCG is 16.4 hours per day (21.6 hours nationwide), with an estimated 77% of nonrevenue water (66% nationwide).

¹³ The average volume of drinking water consumed per person per day is 184 liters for metered customers and more than 1,400 liters for nonmetered customers.

¹⁴ Telavi is the capital of the Kakheti region and has a population of 20,000. Adequate water supply is critical for Telavi's production of wine and agricultural produce, and for tourism. Water is supplied only 4 hours per day on average.

COVID-19, the government is committed to sector reforms to complement ongoing and future physical investments and to improve service delivery and coverage. ADB's policy dialogue with the government identified the need for (i) a consolidated urban and rural WSS policy, and enhanced investment and performance monitoring; (ii) support to restructure UWSCG, develop its human resources, and reform its corporate governance and strategy; (iii) tariff reforms; and (iv) the use of public–private partnerships (PPPs) and new technology to improve sector performance. The government's WSS priorities are aligned with two national directives—the 2020 decentralization strategy, which seeks to devolve power to local governments, and harmonizing Georgia's 1997 Water Law with European Union legislation.¹⁵

8. **Development coordination.** Five development partners have been supporting UWSCG, focusing largely on infrastructure development. ADB is prominently positioned to partner with the government and development partners in driving sector reforms.¹⁶ ADB will explore the potential for stronger coordination with nongovernment organizations to build public awareness and behavior change in the areas of water conservation, hygiene, and sanitation.

B. Sector Development Program and ADB's Value Addition

9. **Modality.** The SDP modality was selected based on the parallel needs for budget support, governance reforms, and targeted financing. The modality is appropriate because (i) the government shows strong commitment to undertake sector reforms which will strengthen the likelihood that the investments will be sustainable; (ii) UWSCG has a high level of experience in implementing ADB projects and all piloting initiatives will set standards and best practices to the sector; (iii) ADB has been extensively engaged in the sector in Georgia; and (iv) budget support will be necessary to cover the financing gap.

10. **Lessons.** Key lessons from the projects have been incorporated in the SDP design that robust governance and institutions are essential for translating infrastructure into quality services and maximizing the development impact. The SDP's design and lending modality incorporate two recommendations from ADB's Independent Evaluation Department: (i) develop human resources to boost labor productivity and reduce skills shortages and mismatches, and (ii) make greater use of PBLs in sectors where ADB has investment loans and experience.¹⁷

11. **ADB's value addition.** This will be the first SDP in Georgia's WSS sector. During 2017–2019, ADB supported the government to prepare for sector reforms through (i) an asset survey and valuation of UWSCG, (ii) tariff-setting methodology and institutional strengthening of the Georgian National Energy and Water Supply Regulatory Commission, and (iii) the PPP law. The SDP will build on this with policy actions that (i) remove constraints in both urban and rural WSS for greater impact; (ii) increase sustainability with gender, environmental, and climate change impact considerations; (iii) cultivate good corporate governance, performance-oriented culture and responsible and gender-sensitive public communication; (iv) foster behavioral changes favoring hygiene, sanitation, and water conservation; and (v) support a phased sector engagement with the private sector, including a scalable and replicable PPP project, and a high-

¹⁵ Ministry of Regional Development and Infrastructure. 2020. *Decentralization Strategy 2020–2025*. Tbilisi; European Union. 2000. *Directive 2000/60/EC of the European Parliament and of the Council establishing a framework for the Community action in the field of water policy*. Brussels.

¹⁶ The sector policy dialogue was undertaken with Agence Française de Développement, the European Investment Bank, the IMF, German development cooperation through KfW, and the World Bank.

¹⁷ Independent Evaluation Department. 2018. *Validation Report: Country Partnership Strategy, Final Review for Georgia 2014–2018*. Manila: ADB; and ADB. 2018. *Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila.

level technology solution for asset management.

C. Sector Development Program Description

12. The SDP will be aligned with the following impact: environmental and public health in Georgia improved.¹⁸ It will result in the following outcome: WSS sector performance and financial sustainability in Georgia improved. The PBL will support output 1 and the project loan will support output 2. The PBL component is supported by a stand-alone multitranche PBL, with two tranches.

13. **Output 1: Sector and corporate governance and capacity strengthened.** The policy actions will enhance sector planning, coordination, and institutions nationwide. The PBL will help institute a cohesive and consistent policy and the legal basis for sustainable urban and rural WSS sector development, provide a strategic anchor to WSS goals, prepare UWSCG, as a pilot, for an institutional transformation, and deal with change responsively. The PBL will support a new consolidated urban and rural WSS policy with gender- and climate-specific provisions, as well as the adoption and implementation of the Energy and Water Law and related resolutions to strengthen WSS utility licensing and investment monitoring. The PBL will motivate UWSCG to become more autonomous, accountable, efficient, and sustainable. The key corporate reform areas are: (i) establishment of a supervisory board and amended charter; (ii) corporate restructuring; (iii) reform of human resources, including greater involvement of women in the sector; (iv) corporate policies and strategies to increase revenue and reduce costs, such as a reduction in nonrevenue water (NRW), metering, and a public communications strategy; (v) performance standards; (vi) an outsourcing action plan and a PPP road map; and (vii) tariff reform and rationalization. UWSCG will adopt a water safety plan to improve its emergency response to disasters and virus pandemics.

14. **Output 2: Operational efficiency of water supply and sanitation increased.** The project will (i) rehabilitate critical infrastructure in Telavi to increase the provision of 24-hour water supply, reduce NRW, and support the COVID-19 response; (ii) improve O&M capacity for NRW reduction, energy efficiency, and wastewater management; (iii) develop a strategy and investment plan for rural WSS; (iv) strengthen project management; and (v) increase public awareness of the importance of health, hygiene, sanitation, and water conservation.

15. **Impacts of the reform.** Reforms in Georgia's WSS sector are essential for raising living standards, health outcomes, and resilience to climate change; and for reducing sector inefficiencies and dependence on the state budget. The reform aims to transform UWSCG from an inefficient water network repair agency to a professional, self-sustaining water supply and wastewater disposal company. Stronger sector governance, more effective utility management, and the adoption of commercial principles will help achieve a sustainable operating model and efficient state ownership. The government, through a central policy and coordination platform, will implement a more balanced and inclusive WSS system and redirect its focus and resources to the areas most in need. Outsourcing and other forms of partnership with the private sector will facilitate change and introduce innovative solutions to increase operational efficiency and productivity. The reform will also help lower the general level of tariff required for operational cost recovery. Outputs 1 and 2 are interlinked and will deepen the reform impact.

¹⁸ The updated design and monitoring framework is in [Appendix 1](#).

D. Development Financing Needs and Proposed Financing Plan

16. Georgia's total financing needs for 2020–2021 are expected to be substantial. Given the impact of the COVID-19 pandemic, annual budget deficits are projected to be 8.5% of GDP in 2020 and 4.8% of GDP in 2021. In 2020, the financing requirement of the government is expected to reach \$1.6 billion; the financing gap is estimated at \$1.3 billion. The PBL will provide budget financing to enhance sector performance and ensure funding for basic services.

17. The size of the PBL reflects the government's total financing needs, the strength of the program, and its economic benefits. The program financing amount is \$154 million. The government has requested a stand-alone two-tranche PBL of \$130 million, estimated to be disbursed in 2020 and 2021, from ADB's ordinary capital resources to help finance the program. The financing plan is in Table 1. The project investment is estimated to cost \$24 million. To help finance the project, the government has requested a loan of \$20 million from ADB's ordinary capital resources.

Table 1: Indicative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular policy-based loan)	130	84
Ordinary capital resources (regular project loan)	20	13
Government ^a (for project only)	4	3
Total	154	100

^a Government contribution includes taxes and duties.

Source: Asian Development Bank estimate.

18. Climate mitigation, from energy efficiency measures, is estimated to cost \$8 million, and climate adaptation, with related considerations embedded in relevant policy documents, is estimated to cost \$26 million.¹⁹ ADB will finance 100% of mitigation and adaptation costs.

E. Implementation Arrangements

Table 2: Indicative Implementation Arrangements

Aspects	Arrangements	
Indicative implementation period	PBL: October 2020–December 2021	project loan: October 2020–December 2024
Indicative completion date	PBL: December 2021; project loan: December 2024	
Indicative loans closing date	PBL: June 2022; project loan: June 2025	
Management		
(i) Oversight body	Steering committee chaired by the MRDI minister	
(i) Executing agency	Ministry of Finance	
(ii) Implementing agency	MRDI and United Water Supply Company of Georgia	

MRDI = Ministry of Regional Development and Infrastructure, PBL = policy-based loan.

Source: Asian Development Bank.

19. The proceeds of the ADB loans will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). Procurement under the project component will include goods, works, and nonconsulting and consulting services, and will follow ADB's Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time) and its associated staff instructions.

¹⁹ Georgia's water sector is vulnerable to a medium climate impact, mainly from increased risk of flash floods and sea-level rise for water infrastructure located in coastal areas.

III. DUE DILIGENCE REQUIRED

20. The project due diligence includes (i) sector assessment; (ii) economic and financial evaluation and analysis; (iii) financial management assessment; (iv) gender, poverty, and social analysis, and gender action plan; (v) safeguard documents; (vi) risk assessment and management plan; (vii) project procurement risk assessment and strategic procurement planning; (viii) integrity due diligence; (ix) climate change assessment; and (x) development coordination. The formulation of a road map for PPP, including a pipeline of PPP projects, is planned to be funded by the Asia Pacific Project Preparation Facility grant during the implementation of the SDP.

IV. PROCESSING PLAN

A. Risk Categorization and Project Procurement Classification

21. The SDP is rated *complex* because it exceeds \$50 million. It is classified as (i) *effective gender mainstreaming*, (ii) *category B* for environmental and involuntary resettlement, (iii) *category C* for indigenous peoples, and (iv) *category B* for project procurement classification.

B. Resource Requirements

22. The One ADB team convened to process the SDP. Ongoing technical assistance serves to prepare the SDP and provide the requisite analytical support.²⁰

C. Processing Schedule

Table 3: Proposed Processing Schedule

Milestones	Expected Completion Date
1. Loan fact-finding	June 2020
2. Informal Board seminar	July 2020
3. Management review meeting	July 2020
4. Loan negotiations	August 2020
5. Board consideration	August 2020
6. Loan signing and effectiveness	September 2020

Source: Asian Development Bank.

V. KEY ISSUES AND MITIGATION MEASURES

23. The key issue pertains to adjusting the SDP processing timeline to meet the government's timeline to frontload substantial sector reform measures in 2020. In tranching the PBL, the processing team will consider close alignment with the government reform timeline, and institutional absorptive and implementation capacity.

²⁰ Footnote 1; ADB. 2013. *Technical Assistance for Supporting the Cities Development Initiative for Asia*. Manila; and ADB. 2015. *Technical Assistance for Conducting Procurement Risk Assessment for Improved Procurement Outcomes*. Manila. Complementary WSS policy support is financed by the Government of Korea and administered by Export-Import Bank of Korea.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impacts the Program is Aligned with Environmental and public health in Georgia improved (National Environmental Action Program 2017–2021) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome WSS sector performance and financial sustainability in Georgia improved	<u>By 2025:</u> <ol style="list-style-type: none"> Average duration of water supply provided to piped network increased to 22 hours/day (2019 baseline: 16.4 hours/day) NRW of UWSCG reduced by 30% (2019 baseline: 77%) Operating efficiency improved to an operating ratio^b of 1 (2018 baseline: 1.4) (RFI 6.1) 	<ol style="list-style-type: none"> UWSCG and GNERC annual reports UWSCG annual audited financial statements 	Increased macroeconomic and geopolitical instability divert resources away from sector reforms.
Reform Area Sector and corporate governance and capacity strengthened	Key Policy Actions <u>By 2020:</u> <ol style="list-style-type: none"> Law on Energy and Water approved (2019 baseline: Law on Electricity and Natural Gas) Investment appraisal and monitoring rules introduced (2018 baseline: none) WSS tariff-setting methodology amended (2018 baseline: NA) Supervisory board of UWSCG established with at least 30% women representatives, and charter amended (2019 baseline: NA) (RFI 2.3) <u>By 2021:</u> <ol style="list-style-type: none"> WSS policy covering both urban and rural areas, with gender- and climate-sensitive provisions, adopted (2019 baseline: NA) Corporate restructuring plan approved (2019 baseline: NA) UWSCG approved internal staff regulations and other HR reform plans with provisions to increase women's participation in the sector (2019 baseline: NA) Performance standards formalized with defined monitorable key performance indicators (2019 baseline: NA) Revenue enhancement and cost reduction programs implemented to improve operational and energy efficiency (2019 baseline: efficiency rated low) 	<ol style="list-style-type: none"> Approved Law on Energy and Water GNERC resolution GNERC resolution MRDI order and an amended UWSCG charter WSS policy statement Approved plan and organogram Staff regulations and HR reform progress report Signed performance agreements (with regional offices and with MRDI) Corporate strategies and programs and audited financial statement of UWSCG 	Public resistance could hinder policy and reforms.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	1j. Outsourcing action plan and PPP road map prepared in UWSCG operations (2019 baseline: NA) 1k. Water safety plan adopted (2019 baseline: NA)	1j. Outsourcing action plan and PPP road map 1k. Water safety plan	
Project Output Operational efficiency of WSS increased	<u>By 2024:</u> 2a. In Telavi: (i) 1.6 km of transmission mains and 59 km of distribution lines rehabilitated and upgraded (2019 baseline: old and nonfunctional network) (RFI 1.3.1) (ii) 6 new boreholes constructed and 5 boreholes rehabilitated in Telavi (2019 baseline: 5 nonfunctional boreholes) 2b. NRW baseline and target developed for each UWSCG service center (2019 baseline: NA) 2c. At least 500 UWSCG staff (30% women) improved technical, financial, management, and leadership skills (2019 baseline: NA) (RFI 6.1.1) 2d. A rural WSS strategy and investment plan developed and accepted for implementation by MRDI with at least 80% of training plans implemented (2019 baseline: NA) 2e. At least 90% of households serviced by UWSCG reached through multimedia campaigns on hygiene, sanitation, customer rights, and water conservation (2020 baseline: NA)	2a. Supervision engineer's monthly progress report 2b. O&M improvement progress report 2c. Issued training certificates 2d. Rural WSS strategy and investment plan and quarterly training progress report 2e. Household surveys	COVID-19 delays mobilization of consultants and contractors. Prices of materials increase beyond projections.

Key Activities with Milestones
Output 1: Not applicable
Output 2: Operational efficiency of WSS increased

- 2.1 Issue invitation for bids (June 2020) and award Telavi water supply contract (November 2020)
- 2.2 Complete rehabilitation and construction of Telavi water supply system (Q4 2022)
- 2.3 Mobilize O&M service consultants (Q1 2021)
- 2.4 Mobilize consultants to develop rural WSS strategy and investment plan (Q2 2021)
- 2.5 Complete capacity building and training programs (urban and rural WSS), gender action plan, public awareness campaigns, and communication activities (Q2 2024)

Program Management Activities

- Strengthen existing PMO with additional staff resources (August 2020)
- Conduct baseline data surveys (November 2020)
- Establish a program monitoring and evaluation system and program performance management system that allow baseline data survey (including sex-disaggregated data collection), analysis, and reporting on program activities
- Implement periodic gender action plan, conduct public awareness campaigns, and monitor compliance with safeguards

Inputs

ADB: \$150 million (regular loan)

Policy component: \$130 million (ordinary capital resources)

Project component: \$20 million (ordinary capital resources)

Government: \$4 million

Assumptions for Partner Financing

Not applicable

ADB = Asian Development Bank, COVID-19 = coronavirus disease, GNERC = Georgian National Energy and Water Supply Regulatory Commission, HR = human resources, MRDI = Ministry of Regional Development and Infrastructure, NA = not applicable, NRW = nonrevenue water, O&M = operation and maintenance, PMO = program management office, PPP = public–private partnership, Q = quarter, RFI = results framework indicator, UWSCG = United Water Supply Company of Georgia, WSS = water supply and sanitation.

^a Government of Georgia. 2018. *National Environmental Action Program 2017–2021*. Tbilisi.

^b Operating ratio means the ratio of UWSCG's operating expenses to its operating revenue. Operating expenses means all expenses of UWSCG on O&M—including staff salaries, cost of energy, chemicals, routine maintenance, spare parts, consumables, and other items; but excluding capital expenditure, debt service obligations, amortization, and depreciation. Operating revenue means the revenue collected by UWSCG from the sale of water and other revenues, excluding grants from the government.

Contribution to the ADB Results Framework:

RFI 1.3.1: Infrastructure assets established or improved

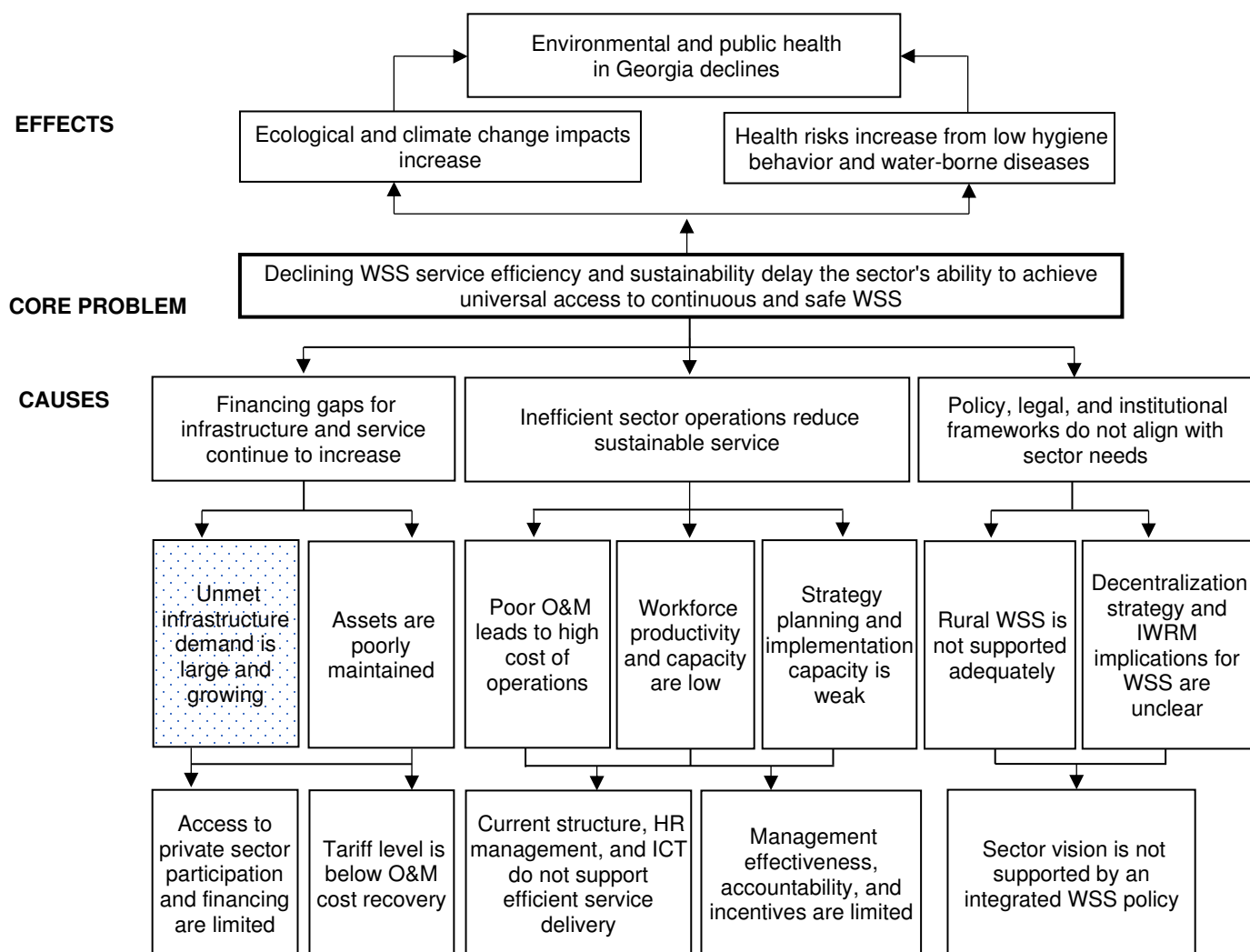
RFI 2.3: Women represented in decision-making structures and processes

RFI 6.1: Entities with improved management functions and financial stability

RFI 6.1.1: Government officials with increased capacity to design, implement, monitor, and evaluate relevant measures

Source: Asian Development Bank.

PROBLEM TREE



Legend

Ongoing support by ADB and development partners

Proposed focus areas for ADB support under the program

HR = human resources

ICT = information and communication technology

IWRM = integrated water resources management

O&M = operation and maintenance

WSS = water supply and sanitation

PROCUREMENT RISK CLASSIFICATION

Ref	Component	Response
1.	How many EAs and IAs are proposed to be involved in project implementation?	EA: Ministry of Regional Development and Infrastructure IA: UWSCG
2.	Do the proposed EAs and IAs have experience with procurement under prior projects financed by ADB or other MDB?	<input checked="" type="checkbox"/> ADB <input checked="" type="checkbox"/> Other MDB (footnote 10 in this document) <input type="checkbox"/> No UWSCG, as IA for the MFF USIIP, has procurement experience and adopted the 2015 ADB Procurement Guidelines in implementing the MFF since 2011. UWSCG also has experience in implementing projects funded by other MDBs (European Bank for Reconstruction and Development, European Investment Bank, Agence Française de Développement, and German development cooperation through KfW).
3.	Have the proposed EAs and IAs experienced long procurement lead times (bid invitation to contract signing) under ADB- or other externally financed projects?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not applicable Of the four contracts processed under USIIP between 2018 and 2019, the procurement lead times ranged from 197 to 380 days (versus a standard of 152 days). Three of these contracts were design-build. The usual delays are experienced during bid evaluation. The experience of the procurement department of UWSCG is generally satisfactory and it has a good level of knowledge of ADB Procurement Guidelines. However, ADB staff's close coordination and guidance are still necessary to support the UWSCG procurement team.
4.	Have the proposed EAs/IAs experienced significant procurement/contractual issues under ADB, or other externally financed projects?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not applicable During the implementation of USIIP, one misprocurement and several rebiddings were experienced. Some delays during the implementation of the works contracts were also experienced, particularly because of technical design issues or poor performance by the contractor.
5.	Did the proposed EAs/IAs require third-party support on previous ADB-financed projects to process procurement transactions?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not applicable Procurement transactions are led by the UWSCG procurement department and supported by PMO procurement consultants. Procurement decisions are made by the Bid Evaluation Committee, which consists of UWSCG's top management and relevant department heads.
6.	Is advance contracting (AC) and/or retroactive financing (RF) expected?	AC: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No RF: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Advance contracting of the Telavi water supply systems package (\$8.6 million) is proposed to be advertised prior to effectiveness. The bidding document for this package is already prepared and ready to be

Ref	Component	Response
		advertised. Necessary approvals will be sought for advertisement before the quality review meeting.
7.	Are complex contracts expected?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8.	Are high-value contracts (>USD 50m) expected?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The investment loan will be \$20 million, of which the biggest contract package will be the Telavi water supply systems for \$8.6 million. The remaining amount will cover consulting contracts, including construction supervision.
9.	Is the distribution of contracts under the project geographically dispersed, which could add complexity in packaging, implementation, and contract management?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
10.	Are there expected to be any supply market restrictions in the provision of the required goods, works, nonconsulting or consulting services?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
11.	Does the EA/IA have formal procedures in place for contract management?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No To be developed under the project.
12.	Will project procurement activities utilize an e-procurement system?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No https://tenders.procurement.gov.ge/login.php?lang=en
Narrative details and regional department's overall comments (Heeyoung Hong, CWUW)		
EA and IA have experience in implementing ADB projects (\$500 million MFF USIIP). The average time from loan signing to contract award was 260 days in the last four contracts processed by UWSCG. There was one misprocurement and several rebidding cases, particularly because of technical design issues or poor performance by the contractor. The existing PMO will be strengthened to address risks identified above, so the tentative category B is proposed. Additional support from PPFD will be sought during SDP fact-finding.		
PPFD comments and Concept Stage Procurement Risk Classification (Minhong Fan, PFP1)		
The IA has gained experience in handling ADB-financed projects (USIIP for six tranches). Though there were issues in the procurement process of previous projects (e.g., long lead time, one misprocurement, and several rebidding cases), the IA learned from these lessons and got a better understanding of ADB procurement policy. The procurement capacity of the IA has greatly improved. The contracts under this project are similar to those under USIIP. Overall, the Project Officer's recommendation that the project procurement risk be <i>category B</i> is supported.		

ADB = Asian Development Bank, EA = executing agency, IA = implementing agency, MDB = multilateral development bank, MFF = multitranchise financing facility, PMO = program management office, PPFD = Procurement, Portfolio and Financial Management Department, SDP = sector development program, USIIP = Urban Services Improvement Investment Program, UWSCG = United Water Supply Company of Georgia.

Source: Asian Development Bank.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Georgia	Project Title:	Sustainable Water Supply and Sanitation Sector Development Program
Lending/Financing Modality:	Sector development program	Department/Division:	Central and West Asia Department/Urban Development and Water Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The proposed sector development program (SDP) is in line with the government's Socio-Economic Development Strategy of Georgia (Georgia 2020).^a It is also in line with the Freedom, Rapid Development and Prosperity-Government Program 2016–2020,^b the four-point reform action plan of the Government of Georgia, which aims to (i) accelerate infrastructure projects through increased funding and proper spatial planning; (ii) strengthen the private sector by creating a safe and stable business environment; (iii) develop human capital to achieve a significant improvement in the skills mix; and (iv) implement public governance reform with a focus on improving service quality by supporting the private sector and the use of innovative technologies in business services. The spatial planning scheme, in particular, is centered on new infrastructure projects and will support the sustainable development of public infrastructure by improving transportation networks and water supply systems for better connectivity and accessibility, which will make Georgia a year-round tourist destination. The government intends to attract private sector participation and foreign investment by (i) developing infrastructure, (ii) improving the business environment, and (iii) supporting innovation and technology.

The SDP is also aligned with the Asian Development Bank (ADB) country partnership strategy, 2019–2023 (CPS) for Georgia.^c The project is listed in the country operations business plan, 2020–2022^d and is consistent with ADB's Water Operational Plan 2011–2020^e and the Climate Change Operational Framework 2017–2030.^f The CPS primarily focuses on making cities more livable, addressing poverty and reducing inequality, and strengthening governance and institutional capacity. The proposed SDP will be aligned with the following impact: environmental and public health conditions in Georgia improved. The SDP outcome is that water supply and sanitation (WSS) service delivery and the financial sustainability of sector operations in Georgia has improved.

B. Poverty Targeting:

☒ General intervention ☐ Individual or household (TI-H) ☐ Geographic (TI-G) ☐ Non-income MDGs (TI-M1, M2, etc.) The SDP will not directly address poverty in the country. It will indirectly contribute to better public health, quality of life, environmental and living conditions of the households and beneficiaries in the project area by rehabilitating and upgrading the Telavi water supply system and improving WSS operation and maintenance.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Out of Georgia's population of 3.7 million, 0.8 million people (21.9%) are estimated to be poor and 0.3 million (8.5%) of these are classified as extremely poor. Nearly half the population lives in rural areas.^g Women account for a significant proportion of the poorest. Nearly 27% of people live in households headed by a woman, and female household heads are overrepresented among the poor and the bottom 40% of the income distribution.^h In 2016, 49% of the 1,763,000 economically active population worked in agriculture, forestry, or fishing (footnote g). Women account for about 75% of employees in the health care and social sectors, and for 60% of those working in the hospitality sector. Less than 10% of women work in construction while 23% are employed in transport and communications. About 80% of urban residents have access to piped water service. An estimated 70% of customers served by United Water Supply Company of Georgia (UWSCG) experience intermittent service. Only 32% of UWSCG service centers provide 24-hour coverage. Half of the urban residents lack sewerage connections and rely on on-site sanitation systems, including pit latrines and septic tanks. Inadequate wastewater treatment is threatening public health and the environment. UWSCG directly supplies 57% of tap water in secondary cities and towns, 35% of households obtain water through a tap from another source or water tanker, and the rest have no supply at home. Among those with access to piped water, about 28% have supply for only 3–4 days per week and mostly for only 2–4 hours per day.

2. Impact channels and expected systemic changes. The SDP will identify issues to be addressed in the water sector and focus on some of the key areas for improvement. It will support the development of the government's long-term approach to WSS aimed at improving people's living and health conditions. Better access to WSS gives women more time for income-generating activities. Households are generally willing to pay more for better WSS services; the low-current fixed residential tariff stands at GEL0.48/m³ for metered household customers and at GEL2.16 per capita per month for unmetered household customers. The project will strengthen gender aspects and women's participation in hygiene and sanitation awareness raising to lower intestinal infections and medical bills, while the government policy addresses women's access to water. The financial benefits of the enhanced operational efficiency of UWSCG, including energy savings, will ultimately accrue to households.

3. Focus of (and resources allocated in) transaction technical assistance or due diligence. The SDP will

focus on increasing communication, participation, and capacity development of beneficiaries and key stakeholders in the project area, and on their key constraints and challenges.

4. **Specific analysis for policy-based lending.** Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this program? – Of the urban residents, 18% have no access to piped water supply and 50% have no access to a reticulated sewerage system. Almost half of households with access to piped water supply only receive water. The problem gets more acute outside of the urban centers of Georgia. Women are most likely to be worst affected by the unavailability or poor quality of the WSS system since they are managing and distributing water within the households. Women and their families also need to be informed on effective water use, hygiene, sanitation, and customer rights. Women's employment in the water sector is low. Although UWSCG is managed by a woman, out of the 2,734 employees, only 23% are women (2018); women's presence in managerial positions is low and almost no women are employed in technical positions. Therefore, greater involvement of women in operation and maintenance, training, and monitoring and evaluation is crucial to institutional strengthening and women's advancement in the sector.

2. Does the proposed program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? ☒ Yes ☐ No

3. Could the proposed program have an adverse impact on women and/or girls or widen gender inequality? ☐ Yes ☒ No

4. Indicate the intended gender mainstreaming category:

☐ GEN (gender equity) ☒ EGM (effective gender mainstreaming)
☐ SGE (some gender elements) ☐ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. – The SDP beneficiaries include the government, nongovernment organizations (NGOs), community-based organizations, and women and other relevant communities. Details will be elaborated during SDP preparation.

2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the program design require the participation of the poor and excluded? – Improved consultation and feedback mechanisms will be considered, including through consultations with civil society, and these will be incorporated during SDP preparation.

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design? – Active CSOs/NGOs will be identified in the consultations on program design.

☒ (H) Information generation and sharing ☒ (M) Consultation ☐ Collaboration ☐ Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? ☒ Yes ☐ No – The SDP design will consider issues of affordability and use participatory approaches when engaging with the poor, vulnerable, and excluded segments of society.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category ☐ A ☒ B ☐ C ☐ FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No

2. What action plan is required to address involuntary resettlement as part of the transaction technical assistance (TA) or due diligence process?

☐ Resettlement plan ☒ Resettlement framework ☐ Social impact matrix
☐ Environmental and social management system arrangement ☐ None

B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No

3. Will the project require broad community support of affected indigenous communities? ☐ Yes ☒ No

<p>4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?</p> <p> <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None </p>
<p>V. OTHER SOCIAL ISSUES AND RISKS</p> <p>1. What other social issues and risks should be considered in the project design? None</p> <p> <input type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others, please specify _____ </p> <p>2. How are these additional social issues and risks going to be addressed in the project design? – Not applicable.</p>
<p>VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT</p> <p>1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?</p> <p> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence? A gender and social development specialist was engaged during SDP preparation.</p>

^a Government of Georgia. 2014. *Socio-economic Development Strategy of Georgia (Georgia 2020)*. Tbilisi.
^b Government of Georgia. 2016. *Freedom, Rapid Development, Prosperity-Government Program 2016-2020*. Tbilisi.
^c ADB. 2019. *Country Partnership Strategy: Georgia, 2019–2023*. Manila.
^d ADB. 2019. *Country Operations Business Plan: Georgia, 2020–2022*. Manila.
^e ADB. 2011. *Water Operational Plan 2011–2020*. Manila.
^f ADB. 2017. *Climate Change Operational Framework 2017–2030. Enhanced Actions for Low Greenhouse Gas Emissions and Climate-Resilient Development*. Manila.
^g ADB. [2017. Key Indicators for Asia and the Pacific 2017](#). Manila. In 2016, 43% of the population lived in rural areas.
^h World Bank. 2016. [Georgia Country Gender Assessment, Poverty and Equity Global Practice](#). Washington, D.C.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=51132-002-ConceptPaper>

1. Technical Assistance to Georgia for Preparing the Water Supply and Sanitation Service Improvement Project