



Report and Recommendation of the President to the Board of Directors

Project Number: 51132-002
September 2020

Proposed Loans and Administration of Technical Assistance Grant Georgia: Sustainable Water Supply and Sanitation Sector Development Program

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 July 2020)

Currency unit	–	lari (GEL)		
GEL1.00	=	€0.290067	or	\$0.327022
\$1.00	=	GEL3.057900	or	€0.886997
€1.00	=	GEL3.447475	or	\$1.127400

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
EU	–	European Union
GDP	–	gross domestic product
GNERC	–	Georgian National Energy and Water Supply Regulatory Commission
GWP	–	Georgian Water and Power
HR	–	human resources
IMF	–	International Monetary Fund
LIBOR	–	London interbank offered rate
m ³	–	cubic meter
MFF	–	multitranchise financing facility
MOF	–	Ministry of Finance
MRDI	–	Ministry of Regional Development and Infrastructure
NRW	–	nonrevenue water
O&M	–	operation and maintenance
P3F	–	post-program partnership framework
PAM	–	project administration manual
PBL	–	policy-based loan
PPP	–	public–private partnership
PSP	–	private sector participation
SOE	–	state-owned enterprise
TA	–	technical assistance
UWSCG	–	United Water Supply Company of Georgia
WSS	–	water supply and sanitation

NOTE

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

Vice-President	Shixin Chen, Operations 1
Director General	Werner E. Liepach, Central and West Asia Department (CWRD)
Director	Yong Ye, Urban Development and Water Division (CWUW), CWRD
Team leader	Heeyoung Hong, Principal Urban Development Specialist (Finance), CWUW, CWRD
Team members	<p>Maria Pia Ancora, Senior Urban Development Specialist, CWUW, CWRD^a</p> <p>Kin Wai Chan, Public–Private Partnership Specialist, Advisory Division 1 (OPA1), Office of Public–Private Partnership (OPPP)</p> <p>Nurlan Djenchuraev; Senior Environment Specialist; Portfolio, Results, Safeguards and Gender Unit (CWOD-PSG); CWRD</p> <p>Minhong Fan; Senior Procurement Specialist; Procurement Division 1; Procurement, Portfolio and Financial Management Department (PPFD)</p> <p>Kashif Jamal, Financial Management Specialist, Public Financial Management Division, PPFD</p> <p>Dmitry Kabrelyan, Senior Public–Private Partnership Specialist, Office of the Director General, CWRD</p> <p>Murman Katsitadze, Associate Procurement Officer, Georgia Resident Mission (GRM), CWRD</p> <p>Jung-Ho Kim, Senior Urban Development Specialist, CWUW, CWRD</p> <p>George David Luarsabishvili, Economist, GRM, CWRD</p> <p>Leah Luna, Senior Operations Assistant, CWUW, CWRD</p> <p>Maritess G. Marcelino, Project Officer, CWUW, CWRD</p> <p>Rodelyn Grace T. Miso, Public–Private Partnership Officer, OPA1, OPPP</p> <p>Takako Morita, Senior Counsel, Office of the General Counsel</p> <p>Tea Papuashvili, Project Analyst, GRM, CWRD</p> <p>Sona Poghosyan, Social Development Specialist (Safeguards), CWOD-PSG, CWRD</p> <p>Mary Alice Rosero, Social Development Specialist (Gender and Development), CWOD-PSG, CWRD</p> <p>Syed Ali-Mumtaz H. Shah; Principal Financial Sector Specialist; Public Management, Financial Sector, and Trade Division, CWRD</p> <p>Ron Slangen, Principal Urban Development Specialist, CWUW, CWRD</p> <p>Geoffrey Wilson, Senior Water Resources Specialist, Office of the Cluster Head–Water Sector Group, SDCC</p>
Peer reviewer	Elma Morsheda; Infrastructure Specialist; Pacific Liaison and Coordination Office in Sydney, Australia; Pacific Department

^a Outposted to the Armenia Resident Mission.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

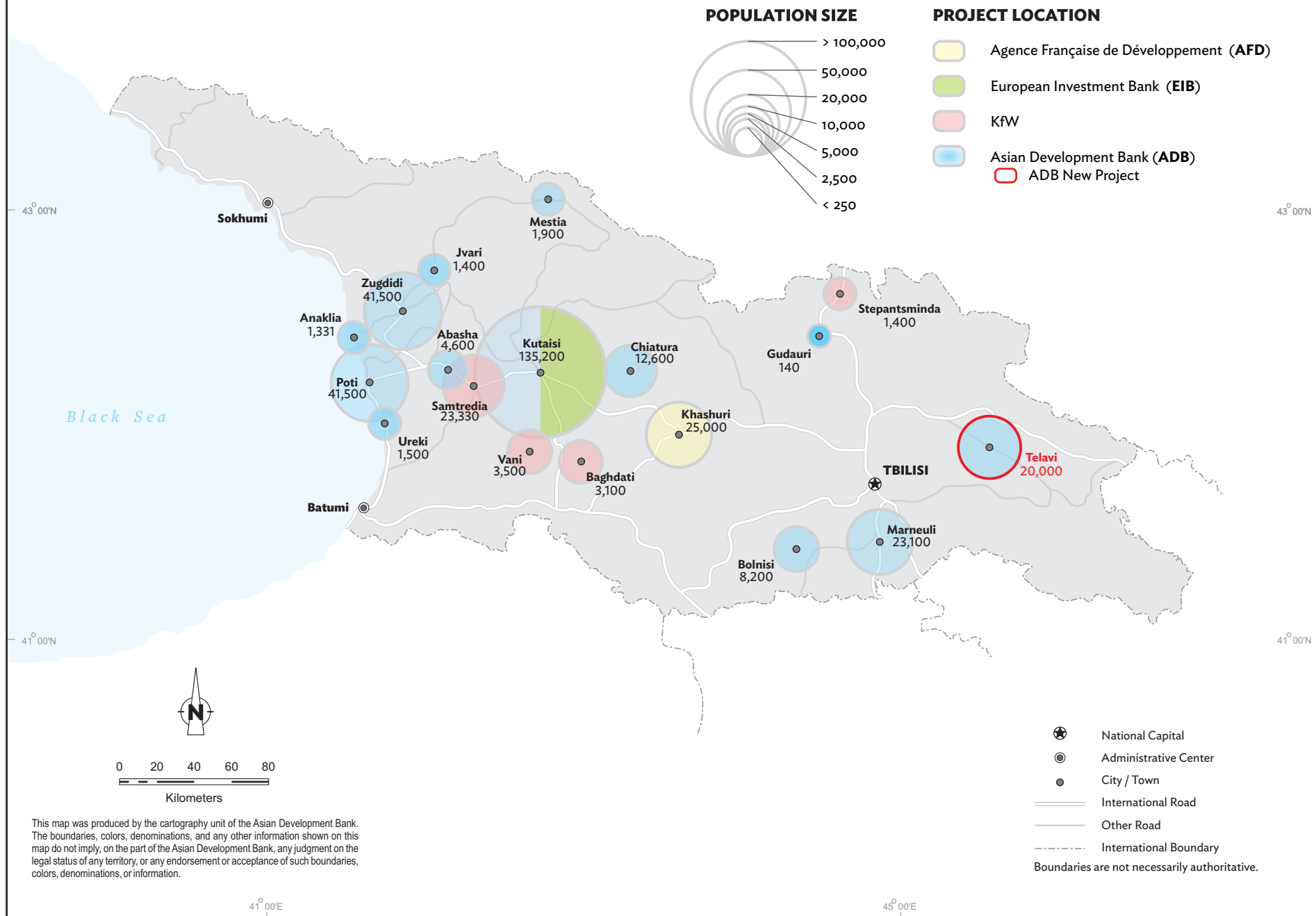
	Page
PROGRAM AT A GLANCE	
MAP	
I. THE PROPOSAL	1
II. THE SECTOR DEVELOPMENT PROGRAM AND RATIONALE	1
A. Background and Development Constraints	1
B. Policy Reform Agenda and ADB's Value Addition	5
C. Impacts of the Reforms	6
D. Development Financing Needs, Summary Cost Estimates, and Financing Plan	8
E. Implementation Arrangements	10
III. ATTACHED TECHNICAL ASSISTANCE	11
IV. DUE DILIGENCE	11
A. Technical	11
B. Economic and Financial Viability	11
C. Sustainability	12
D. Governance	12
E. Poverty, Social, and Gender	13
F. Safeguards	13
G. Summary of Risk Assessment and Risk Management Plan	14
V. ASSURANCES	14
VI. RECOMMENDATION	14
APPENDIXES	
1. Design and Monitoring Framework	15
2. List of Linked Documents	18
3. Development Policy Letter	19
4. Policy Matrix	22

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	Urban policy, institutional and capacity development		100.00
	Urban water supply		16.00
	Agriculture, natural resources and rural development	Rural water policy, institutional and capacity development	34.00
		Total	150.00
3. Operational Priorities		Climate Change Information	
Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	1,300
Accelerating progress in gender equality		Climate Change impact on the Project	Medium
Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
Making cities more livable		ADB Financing	
Promoting rural development and food security		Adaptation (\$ million)	9.90
Strengthening governance and institutional capacity		Mitigation (\$ million)	6.50
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
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 11.5, 11.a			
SDG 12.2, 12.4			
SDG 13.a			
		Poverty Targeting	
		General Intervention on Poverty	
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		3.50	
Government		3.50	
Total		153.50	
Note: An attached technical assistance will be financed on a grant basis by the High Level Technology Fund in the amount of \$225,000.			
Currency of ADB Financing: Euro			

GEORGIA

SUSTAINABLE WATER SUPPLY AND SANITATION SECTOR DEVELOPMENT PROGRAM



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed (i) policy-based loan (PBL) and (ii) project loan to Georgia for the Sustainable Water Supply and Sanitation Sector Development Program. The report also describes the proposed administration of technical assistance (TA)—Supporting High-Level Technology for Asset Management—to be provided by the High-Level Technology Fund¹ and, if the Board approves the proposed loans, I, acting under the authority delegated to me by the Board, approve the administration of the TA.

2. The proposed program supports the government's pursuit of sustainable water supply and sanitation (WSS) services and an efficient state-owned enterprise (SOE). The policy actions under the stand-alone multitranche PBL will transform WSS governance and institutions to improve performance and financial sustainability, while ensuring funding for basic services during a period of fiscal constraints brought on by the coronavirus disease (COVID-19) pandemic. The project will (i) strengthen the operation and maintenance (O&M) capacity of United Water Supply Company of Georgia (UWSCG),² (ii) prepare strategic investment plans for national-scale rural WSS development, and (iii) increase public awareness of infection prevention measures in the context of COVID-19 through a gender-sensitive health, hygiene, and sanitation program. The project will also improve the water supply system in Telavi city, a regional center and employment generation hub, to enable 24-hour water supply.³ The TA will introduce high-level technology into asset management systems to enhance O&M in select cities.

II. THE SECTOR DEVELOPMENT PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Macroeconomic context and COVID-19 impacts.** Georgia enjoyed a 4.7% average annual rate of gross domestic product (GDP) growth and kept its annual fiscal deficit equal to about 1.0% of GDP in 2011–2019.⁴ It halved its poverty rate from 38.8% in 2007 to 20.1% in 2018. Unemployment declined from 17.3% in 2011 to 11.6% in 2019. Public debt to GDP stood at 44.5% in 2019. The International Monetary Fund (IMF) assessed public debt as remaining sustainable in the medium term.⁵ The inflation forecast for 2020 is adjusted upward to 5% above the central bank target of 3% as the lari depreciated rapidly. The government plans for a gradual fiscal consolidation starting in 2021. The National Bank of Georgia will continue to exercise caution in its policy stance to balance the impact of the lari depreciation. GDP growth is estimated to drop to -5% in 2020 because of the COVID-19-induced economic slowdown.⁶ Timely budget support is critical for (i) imminent fiscal relief and COVID-19 management,⁷ (ii) structural reforms against fiscal risks arising from SOEs, and (iii) substantial development financing needs from the COVID-19 impact.⁸ COVID-19 is expected to reduce UWSCG revenues from commercial customers—an essential revenue stream—by up to 30% in 2020.

¹ Financing partner: Government of Japan. Administered by the Asian Development Bank (ADB).

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

³ Telavi is the 13th largest city with a population of 20,000. It is 158 kilometers east of the capital, Tbilisi. Adequate water supply is critical for Telavi's wine and agricultural production, and for tourism.

⁴ IMF. [Georgia and IMF: Country Data](#) (accessed on 24 August 2020).

⁵ IMF. 2020. [IMF Country Report No. 20/149](#). Washington, DC.

⁶ ADB. 2020. [Asian Development Outlook Supplement: Lockdown, Loosening, and Asia's Growth Prospects](#). Manila.

⁷ ADB. 2020. [Georgia: COVID-19 Active Response and Expenditure Support Program](#). Manila. At least 1.2 million families will benefit from subsidized utility bills for water, electricity, and waste management for at least 3 months.

⁸ Georgia's development financing needs is estimated at \$1.53 billion in 2020. The government has more than 200 ongoing WSS works contracts that risk either cancellation or termination.

4. **Inadequate provision of water supply and sanitation services.** Access to essential WSS services varies across the country, and disparities between urban and rural areas are increasing.⁹ About 92% of urban residents and 64% of rural residents receive piped water, while 84% of urban and 20% of rural residents have access to sewerage systems. Only 36% of the total population benefit from wastewater treatment. Water supply is not continuous, ranging nationwide from 4 hours per day to 24 hours per day, which poses a significant health risk during the COVID-19 pandemic. Telavi households, for example, suffer from intermittent water supply of 4 hours per day (footnote 3). The quality of service suffers from operational inefficiencies, as evident in a high rate of nonrevenue water (NRW), estimated at 66%, and in just 47% of households being metered.

5. **Outdated sector policy and regulations.** Georgia lacks a consolidated vision and policy to guide urban and rural WSS planning and development. Multiple regulations and strategies exist, but without a coherent and integrated approach. The 1997 Water Law, currently in force, does not align with European Union (EU) legislation for integrated water resources and river basin management.¹⁰ The 1997 Energy and Gas Law and related regulations apply primarily to the energy sector and lack a focus on WSS.

6. **Inadequate institutional arrangements.** Sector planning, development, and monitoring are not coordinated, involve multiple stakeholders, and largely exclude the participation of local governments. The Ministry of Regional Development and Infrastructure (MRDI) is responsible for WSS policy formulation, infrastructure development, and the administration of line agencies, including UWSCG. The Ministry of Environmental Protection and Agriculture is tasked with environmental regulation; the Ministry of Labor, Health, and Social Affairs monitors the quality of drinking water; and the Georgian National Energy and Water Supply Regulatory Commission (GNERC) regulates operators and sets tariffs. The roles and responsibilities of local governments in WSS management and regulation are not clearly defined.

7. **Weak capacity of the key service providers.** Local governments and UWSCG collectively serve about 68% of the population.¹¹ UWSCG's inadequate O&M capacity accelerated the degradation of its assets and compromises its urban service provision, while rural WSS lacks a holistic solution to its multiple challenges. Local governments have limited capacity to undertake WSS development because of insufficient financial and technical resources. UWSCG, the sole SOE among WSS providers, is responsible for the largest individual share of WSS assets in Georgia, covering 90% of the nation's geographic area. Its corporate structure, capacity, and resources do not align with increasing services and customer demands.¹² Its governance system does not support organizational autonomy and accountability, and weakens its operational and financial performance. Acute skills shortages and mismatches prevail because UWSCG management and staff do not have the education and expertise they need.

⁹ Georgia ranked 70th out of 189 countries on the Human Development Index and 75 on the Gini index in 2019. More than 30% of the total population lives in the capital, Tbilisi, which contributed 52% of GDP in 2019.

¹⁰ 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.

¹¹ Nine WSS service providers cover 56% of the total population, largely in urban areas, while local governments service 44% of mostly rural residents. Four of the nine providers are private licensees, one is an SOE, and four are municipal companies. Three licensees are responsible for 92% of urban households: (i) Georgian Water and Power (GWP) covers Tbilisi, Mtskheta, Rustavi, and Gardabani municipalities (serving 1.1 million people); (ii) Batumis Tskali, a municipal company founded in 2006, operates in the Adjara Autonomous Republic (0.1 million people); and (iii) UWSCG operates in 10 regions across the country (0.9 million people). The two largest service providers, GWP and UWSCG, cover 83% of the total urban population.

¹² UWSCG provides only 32% of its service centers with 24-hour water supply and has 77% NRW. Its staff productivity is low since it has more than 8 staff per 1,000 connections.

8. **Sector reforms.** The government privatized Georgian Water and Power (GWP) in 2008 to provide services in the capital region of Tbilisi, consolidated more than 60 WSS companies across the country, and incorporated UWSCG in 2010 to cover secondary cities in 10 regions. Through UWSCG, the government facilitated access to low-cost capital and pooled resources to support the sector's infrastructure needs. From 2011 to 2019, it attracted more than \$800 million in financial assistance to improve urban WSS infrastructure through UWSCG. The government considers UWSCG a strategic asset to meet its socioeconomic goals and sees WSS reforms as a prerequisite for a next generation of physical investments. The immediate needs include (i) developing a single WSS policy covering urban and rural areas; (ii) improving the legal, regulatory, and institutional environment to sustain investments, and enable private sector participation (PSP) and public-private partnerships (PPPs); and (iii) strengthening the managerial, operational, technical, and financial capacity of key sector stakeholders.

9. **State-owned enterprise reform.** In 2020, the government initiated SOE reforms for a faster post-pandemic recovery and increased macroeconomic stability. The Ministry of Finance (MOF) selected UWSCG to be one of the first SOEs to implement the national SOE reforms.¹³ The government classified UWSCG as one of the three high-risk SOEs with liabilities totaling 11% of GDP.¹⁴ MOF wishes to capture the advantages of private sector engagement for government subsidy reduction and quality services. However, UWSCG covers cities with low population density and tariff level, which are not attractive to the private sector. The government will pave the way for greater PSP and PPP opportunities by making UWSCG's operational data more reliable, and improving its operational performance. Learning from the GWP privatization experience, the government intends to pursue a phased approach to privatization in the WSS space and to strengthen its asset quality and governance structure as initial steps.¹⁵ UWSCG will introduce (i) robust corporate governance, strategic business and investment plans, and a statement of corporate intent;¹⁶ and (ii) greater transparency, accountability, and incentives for results. The policy dialogue of the Asian Development Bank (ADB) with the government further identified the need for (i) restructuring UWSCG; (ii) installing meters and rationalizing tariffs; (iii) promoting PSP and PPP; (iv) introducing new technology to systematically improve services; and (v) integrating gender, environment, and climate resilience into WSS.

10. **Poverty and gender dimensions.** Nearly 35% of the population lives in households headed by women, and female household heads are overrepresented among the poor and the bottom 40% of the income distribution. Poor WSS services are particularly hard on women because they make household chores more difficult and reduce the time for income-generating activities; they also increase the risk of waterborne diseases, lost productive days when taking

¹³ MOF will complete a fiscal analysis of all SOEs by the second half 2021, publicly disclose all government subsidies by 2022, and request SOEs to prepare a subsidy reduction plan for 2023. The government identified inadequate corporate governance as a core weakness of SOEs.

¹⁴ According to the 2018 Budget Law prepared by MOF, the liabilities of the 43 high-risk SOEs reached 12.8% of GDP by the end of 2016, and 87% of these liabilities were concentrated in three companies: Marabda-Kartsakhi Railway Company (44% of total), Georgian State Electrosystem (27%), and UWSCG (16%).

¹⁵ GWP provides services in densely populated Tbilisi, while UWSCG's service area stretches across 10 regions with low population density, which increases operating costs and lowers efficiency. GWP has underperformed in terms of system leakage and metering levels but outperformed UWSCG in other areas of operational efficiency, such as energy efficiency and staff productivity. ADB is providing a complementary investment of \$35 million in green bonds—\$17.5 million each from OCR and Leading Asia's Private Infrastructure Fund (LEAP)—to upgrade GWP's WSS performance in Tbilisi and nearby municipalities.

¹⁶ The statement of corporate intent will define the scope of the public corporation's business and objectives, and the strategies to achieve the objectives. It will include (i) risk limits; (ii) any transfers the public corporation shall receive from or pay to the budget to compensate for competitive disadvantages and advantages, and to compensate for undertaking activities at the government's explicit direction; and (iii) the consequences of the public corporation's failure to achieve its objectives or comply with its risk or other obligations.

care of sick household members, and medical expenses.¹⁷ In addition, women are underrepresented and disadvantaged in the WSS business environment. UWSCG does not have explicit human resources (HR) policies and programs that address gender issues and increase women's opportunities for career advancement. Of its more than 2,700 employees, only 26% are women.¹⁸ The share of women in managerial positions is less than 20%, and only 1 of 51 service centers is headed by a woman.

11. **ADB engagement and development coordination.** ADB is the largest development partner in WSS in terms of lending volumes, and has the longest engagement with UWSCG.¹⁹ It has been working with UWSCG since 2011 through a multitranche financing facility (MFF) of up to \$500 million.²⁰ Among other key achievements, the MFF financed construction of 11 wastewater treatment plants and introduced biological treatment in the country. Three other development partners are assisting UWSCG with a focus on infrastructure development,²¹ making ADB uniquely positioned to support policy reforms in the sector. ADB coordinated with the IMF and key development partners on a common set of priorities for sector development.²² ADB will also explore stronger collaboration with nongovernment organizations in public-awareness programs.

12. **Lessons.** ADB's long engagement with the government contributed to the formulation of the reform agenda in the proposed program. The key lessons from the ongoing MFF are that (i) broader institutional measures are needed to achieve a utility's turnaround, (ii) high-level ownership and commitment are crucial for institutional reforms, (iii) policy reforms will help sustain project impacts, (iv) project risks can be better managed through good business and investment planning and monitoring, (v) investment in O&M capacity is imperative, and (vi) rural WSS needs to be integrated into the government's policy framework for overall WSS. The design of the program incorporates three recommendations from ADB's Independent Evaluation Department: (i) develop HR to boost productivity and reduce skills shortages, (ii) incorporate sustainability as a priority in the project design, and (iii) make greater use of PBLs where ADB has investments and experience.²³

13. **Strategic alignment.** The program is anchored in the government's national strategies and program,²⁴ notably the broader effort to reform SOEs and the 2020–2025 decentralization strategy to devolve more power to local governments.²⁵ The program supports the priorities of ADB's country partnership strategy, 2019–2023 for Georgia and is listed in ADB's country

¹⁷ About 2% of Telavi residents experienced waterborne diseases in the previous 12 months, causing an average of 7 indisposed days with an average annual medical cost of \$9.2 per capita.

¹⁸ Men largely dominate the technical field, where women hold only 5% of technical positions. In the head office, women account for about 40% of the staff but have largely administrative functions.

¹⁹ ADB financed 18 projects in WSS from 2007 to 2019, for a total of \$593 million in loans, grants, and TA.

²⁰ ADB. 2011. *Georgia: Urban Services Improvement Investment Program*. Manila. As of 13 August 2020, \$477.5 million is committed (95%), \$411.8 million awarded (86%), and \$308.8 million disbursed (65%) under the MFF.

²¹ Development Coordination (accessible from the list of linked documents in [Appendix 2](#)). Agence Française de Développement plans to build a water supply and wastewater network and wastewater treatment plant in Khashuri. The European Investment Bank finances wastewater collection and treatment infrastructure in Kutaisi. German development cooperation through KfW plans to support communal infrastructure for environment and tourism improvements in Samtredia, Vani, Baghdati, and Stefantsminda.

²² International Monetary Assessment Letter (accessible from the list of linked documents in [Appendix 2](#)).

²³ Independent Evaluation Department. 2018. *Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design*. Manila: ADB; ADB. 2017. *Performance Evaluation Report: Municipal Services Development Project and Municipal Services Development Project (Phase 2) in Georgia*. Manila.

²⁴ Government of Georgia. 2014. *Socio-economic Development Strategy of Georgia (Georgia 2020)*. Tbilisi; and Government of Georgia. 2016. *Freedom, Rapid Development, Prosperity—Government Program 2016–2020*. Tbilisi.

²⁵ Government of Georgia. 2020. *Decentralization Strategy 2020–2025*. Tbilisi.

operations business plan, 2020–2022.²⁶ It also supports the six operational priorities of ADB’s Strategy 2030 that concern livable cities, climate change, poverty reduction, gender equality, rural development, and governance and institutional capacity.²⁷

14. **Modality.** ADB and the government selected the sector development program modality because of the parallel needs for development financing, policy reforms, and targeted project financing. The modality is appropriate because (i) the government has strong demand for sector reforms, (ii) UWSCG has experience in implementing ADB projects, (iii) ADB has extensive experience in Georgia’s WSS environment, and (iv) budget support is necessary to cover development financing gaps.

B. Policy Reform Agenda and ADB’s Value Addition

15. **Policy reform agenda.** Georgia’s WSS system requires more planning, coordination, and development. The government is committed to strengthening the effectiveness of WSS governance and institutions, providing a single policy and better coordination, reducing inefficiencies and reliance on the state budget, and removing key legal and regulatory bottlenecks to enable effective WSS management and growth. A successful turnaround of UWSCG will help raise its business profile, establish market credibility to foster private sector participation, minimize the potential risks of debt restructuring and loan refinancing, and have an important demonstration effect for all operators involved in WSS.

16. **Synergy and balance between policy reform and project.** The policy reforms and the project component complement each other to catalyze sector improvements. The policy reforms will build an enabling environment and increase the sustainability of the country’s sector projects, including those under ADB’s ongoing \$500 million MFF; they will also strengthen the performance of SOE by fostering corporate governance, commercial orientation, and management accountability and autonomy, and by making PSP and PPPs more attractive.

17. The project components are linked to effectively operationalize policy reforms. The project will build capacity to deal with reform challenges and procure modern O&M equipment, and support the change process for sustainable O&M and rural WSS development. UWSCG has more than 60 ongoing and planned projects, including the ongoing MFF in 2020 (footnote 20). The design of the project takes into account its institutional and operational capacity constraints, and the limitations in undertaking additional works. Some of the essential O&M equipment has been advanced and is procured under the ongoing MFF.²⁸ Remaining works under the ongoing MFF works (8 contracts with an estimated undisbursed amount of \$87 million at the end of March 2021) were also reflected in scoping the project design. Considering the volume of the ADB’s ongoing investment portfolio, the distribution of the PBL and project loan amount is balanced and corresponds to the government’s development financing and reform needs.

18. **ADB’s value addition.** The program supports the first policy intervention in the WSS environment and will lay a foundation for new investments and private sector engagement. During

²⁶ 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. The strategic thrusts of the country partnership strategy are transport corridor development, trade facilitation at the border, urban development, HR development, regional cooperation and integration, and support to institutional reforms and other interventions for resource mobilization.

²⁷ ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

²⁸ The ongoing MFF supported the installation of bulk meters and the procurement of O&M equipment.

2017–2019, ADB helped the government prepare for WSS reforms with (i) an asset survey and valuation of UWSCG, (ii) a tariff-setting methodology and the institutional strengthening of GNERC, and (iii) a PPP law. ADB's continued engagement will help initiate and implement reforms that (i) remove development constraints and support inclusive growth; (ii) enhance environmental and climate change considerations; (iii) address women's limited participation in both the community and WSS services; (iv) instill good corporate governance and a performance-oriented culture, and responsible and gender-sensitive public communication; (v) foster behavioral change toward hygiene, sanitation, and water conservation; (vi) support the phased engagement with the private sector; and (vii) bring high-level technology solutions to asset management.

C. Impacts of the Reforms

19. The program is aligned with the following impact: living conditions and public health in Georgia improved.²⁹ The program will have the following outcome: performance and financial sustainability of WSS services improved.³⁰ The PBL will support output 1 by helping strengthen WSS governance and institutions, and the project loan will support output 2 by helping increase the operational efficiency of WSS services. The stand-alone multitranche PBL will be delivered in two tranches to be disbursed in 2020 and 2021 with a post-program partnership framework (P3F) covering 2021–2024.

20. The reform impacts will extend beyond UWSCG because the reforms support the country's infrastructure-driven growth as well as parallel assistance by other development partners, and catalyze PSP and PPPs. A single government policy and central coordination for WSS development will result in better resource allocation and productivity. The planned law on water resources management will prescribe the integrated management of water and river basins in line with the EU Water Framework Directive (footnote 10). It will form the legal basis for licensing and regulating surface water and groundwater abstraction, wastewater discharge, and allocation and distribution of water in the event of user conflict.³¹ The Energy and Water Supply Law and related resolutions will provide incentives to utilities for stepping up their operational efficiency; improve their investment appraisal, planning, and monitoring activities; and ensure transparent, stable, and fair tariff setting by GNERC.³²

21. The historical financial performance of UWSCG is poor. In 2019, its operating ratio stood at 1.45, and the ratio of total debt to capital increased to 86% to cover large-scale expenditure programs.³³ The government provided subsidies to UWSCG to cover its operational losses and debt obligations. The policy reforms will introduce robust corporate governance practices, accountability for results, and hard budget constraints to reduce government subsidies to SOEs, which will help transform UWSCG into an efficient and self-sustaining company. Partnerships with the private sector will fast-track change and performance. The PBL-linked reforms will generate government budget savings of about \$100 million over 10 years.³⁴ Through a set of policy actions under the program, UWSCG will be operationally sustainable from 2023, and generate sufficient

²⁹ Government of Georgia. 2018. *Regional Development Program of Georgia 2018–2021*. Tbilisi.

³⁰ The updated Design and Monitoring Framework is in [Appendix 1](#).

³¹ Stakeholders include the Ministry of Environmental Protection and Agriculture; MRDI; WSS operators such as UWSCG and municipal water companies, local governments, community-based organizations, Georgian Amelioration, river basin management committees, industries, as well as other water users.

³² GWP will be the first licensee to be subjected to the new Energy and Water Supply Law and related resolutions on investment appraisal and tariff methodology in 2020.

³³ UWSCG did not comply with the covenant (under the ongoing MFF) for an operating ratio of 1 or below by fiscal year 2019 but has approved a timebound financial management action plan to achieve compliance.

³⁴ Fiscal Impact Assessment (accessible from the list of linked documents in [Appendix 2](#)).

cash flow to finance asset maintenance, upgrades, and expansion without external support. It will achieve this by (i) reducing physical losses with a related decrease of water production cost and energy consumption, (ii) reducing commercial losses and increasing billings, and (iii) boosting operational efficiency. The required tariff increases are expected to be moderate given the utility's reduced commercial losses, improved O&M, and better energy and NRW management.

22. Output 1: Water supply and sanitation governance and institutions strengthened.

The PBL will support the government in creating a cohesive policy, legal, and institutional basis for balanced urban and rural WSS development. It features 20 policy actions—9 under the first tranche and 11 under the second tranche. While the first tranche has fewer policy actions than the second tranche, the first nine represent the key drivers of reform, secure high-level government commitments, and determine the success of the subsequent actions. All policy actions for tranche 1 have been completed.

23. Key reform area 1: Urban and rural water supply and sanitation governance strengthened.

Under the first-tranche policy actions, the PBL will support (i) the national adoption of the Energy and Water Supply Law—replacing the 1997 Law on Energy and Gas—and associated resolutions to strengthen the legislative and regulatory framework for WSS through an established rule for the appraisal of investments and an amended tariff-setting methodology; and (ii) the constitution of a WSS steering committee to plan, coordinate, and monitor WSS activities.

24. Under the second tranche, the PBL will support (i) the submission to Parliament of a draft law on managing water resources to harmonize Georgia's environmental legislation under the Association Agreement with the EU;³⁵ (ii) an integrated urban and rural WSS policy, including a wastewater and stormwater management strategy with gender- and climate-change-specific provisions;³⁶ and (iii) a WSS sector development framework for 2021–2030 that incorporates emerging priorities after the 2011–2020 urban WSS sector development plan expires in 2020.

25. Key reform area 2: Utility's governance and management effectiveness improved.

Area 2 covers a comprehensive framework for the turnaround of UWSCG. The key corporate reforms under the first-tranche policy actions are (i) a supervisory board with at least 30% of members being women; (ii) a high-powered change management committee to prepare for institutional transformation and facilitate corporate restructuring; (iii) a corporate strategy for public communication and a metering program to increase revenues, lower costs, and enhance the engagement with the public; (iv) internal staff regulations, an HR management policy, and an HR management committee to spearhead HR reforms; and (v) a time-bound action plan to mainstream outsourcing in UWSCG operations.

26. The second-tranche policy actions ensure UWSCG's compliance with the SOE reforms: it will be one of the first pilot SOEs to implement the statement of corporate intent (footnote 16). The PBL will further support (i) a charter amendment to define the responsibilities, rights, and obligations of the director of UWSCG, its supervisory board, and other committees set up under the first tranche; (ii) a blueprint for corporate restructuring to streamline operations; (iii) UWSCG's performance agreements with regional offices, and with MRDI including key performance indicators and incentives; (iv) an asset management policy and NRW reduction strategy for 2021–2025, once the metering program has yielded more accurate production and consumption data; (v) HR reforms covering an HR policy and development programs, salary and compensation review, performance-based evaluations and incentives, gender equality policy, and workforce

³⁵ Georgia signed an Association Agreement with the EU in 2014.

³⁶ Gender Action Plan (accessible from the list of linked documents in [Appendix 2](#)).

rationalization; (vi) a water safety plan to guide emergency responses and disaster risk management; and (vii) a PSP–PPP road map and pipeline.

27. **Post-program partnership framework.** A P3F will be implemented during 2021–2024. It sets the foundation for future engagement with the government and other development partners. It will enable ADB to engage in policy dialogue that supports WSS and SOE reforms, and the implementation of corresponding activities. Through P3F, ADB will assist the government in assessing the policy impact and sustainability of its reforms. The government and ADB will jointly (i) monitor the reform progress, results, and impacts; (ii) identify strategies to overcome gaps and bottlenecks; and (iii) develop a complementary program to support further reforms and future engagement.

28. **Output 2: Operational efficiency of water supply and sanitation services increased.** The project will (i) provide O&M equipment for and improve UWSCG's operational capacity in about 57 cities and towns in 10 regions;³⁷ (ii) develop a strategy and investment plan, and build local capacity for rural WSS development;³⁸ (iii) strengthen project management, monitoring, and evaluation, including advisory services for corporate restructuring and PSP and PPP;³⁹ and (iv) increase public awareness of infection prevention measures in the context of COVID-19 and the importance of health, hygiene, and sanitation; as well as awareness of the value of water conservation. The project will also rehabilitate transmission mains and the distribution network; repair water intakes, pumps, valves, and treatment units; and provide new reservoirs and wells in Telavi.⁴⁰ It will enable 24-hour water supply, improving from the average daily 4-hour water supply now; achieve 100% metering from 40% now; increase the number of household connections; reduce the NRW rate; and improve water supply pressure and energy efficiency.

D. Development Financing Needs, Summary Cost Estimates, and Financing Plan

29. The overall program is estimated to cost €136.15 million (\$153.50 million equivalent) (Table 1). ADB will provide a PBL of €115.31 million (\$130 million equivalent) and a project loan of €17.74 million (\$20 million equivalent). The summary financing plan is in Table 2. The government will provide counterpart funding of €3.10 million (\$3.50 million equivalent). Detailed cost estimates by expenditure category and by financier for the project are included in the project administration manual (PAM).⁴¹

³⁷ O&M improvement support includes an O&M road map and action plan; a baseline survey and gap analysis of UWSCG's field offices; capacity development, especially in wastewater management; and the financing of related modern equipment.

³⁸ A rural WSS project component will provide a sustainable solution for rural WSS management and operation, including an institutional framework defining the roles and responsibilities of all key stakeholders in rural WSS; guide the formulation of an investment program; and support capacity building.

³⁹ The ongoing MFF is supporting advisory services for corporate restructuring and PSP and PPP, and the program will provide additional support, as required.

⁴⁰ Telavi is being prioritized for its economic and strategic importance to tourism, agribusinesses, and the wine industry, which are key contributors to employment and revenue generation. Telavi is listed as a priority city in the Regional Development Program of Georgia 2018–2021. The project design factored in all remaining works under the MFF (para. 17 and footnote 20) and UWSCG's implementation capacity.

⁴¹ Project Administration Manual (accessible from the list of linked documents in [Appendix 2](#)).

Table 1: Summary Cost Estimates
(€ million)

Item	Amount ^a
A. Base Cost	
1. Water supply and sanitation governance and institutions strengthened	115.31
2. Operational efficiency of water supply and sanitation services increased	17.74
Subtotal (A)	133.05
B. Contingencies^b	2.57
C. Financial Charges During Implementation^c	0.53
Total (A+B+C)	136.15

^a Includes taxes and duties of €3.10 million to be financed by the government.

^b Includes 10% physical and 10% price contingencies, and a provision for exchange rate fluctuation.

^c Includes interest, commitment, and other charges on all sources of financing.

Source: Asian Development Bank estimates.

Table 2: Summary Financing Plan

Source	Amount (€ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (regular policy-based loan)	115.31	84.7
Ordinary capital resources (regular project loan)	17.74	13.0
Government of Georgia ^a	3.10	2.3
Total	136.15	100.0

^a Government contribution includes taxes and duties. The government share applies only to the project, for which its contribution is 14.9%.

Source: Asian Development Bank estimates.

30. **Development financing needs.** The government's financing requirements are expected to be \$1.53 billion in 2020, to be financed by domestic and foreign sources. Its foreign borrowing will be \$1.41 billion in 2020, mainly from international financial institutions and bilateral partners. Total ADB budget support in 2020 amounts to \$530 million, or 34.6% of the government's financing requirements.⁴²

31. **Policy-based loan.** The government has requested a regular loan of €115.31 million (\$130 million equivalent) from ADB's ordinary capital resources. The PBL will be disbursed in two tranches, with actions in the second tranche building on actions under the first tranche. The distribution of the PBL between the two tranches is in line with the government's development financing needs in 2020 (\$1.53 billion) and 2021 (\$0.57 billion). The loan will have a 15-year term, including a grace period of 3 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 9.25 years, and there is no maturity premium payable to ADB. The first tranche of €70.96 million (\$80 million equivalent) will be released upon loan effectiveness. The second tranche of €44.35 million (\$50 million equivalent) is expected to be

⁴² ADB approved COVID-19 Active Response and Expenditure Support (\$100 million) in 2020 and is preparing policy-based loans in energy (\$100 million), fiscal resilience and social protection (\$200 million), WSS (\$80 million, tranche 1 of this PBL), and education (\$50 million) for an expected total disbursement of \$530 million in 2020. In addition, budget support from other development partners in 2020 amounts to \$880 million: (i) \$205 million from Agence Française de Développement, (ii) \$100 million from Asian Infrastructure Investment Bank, (iii) \$95 million from the EU, (iv) \$100 million from German development cooperation through KfW, (v) \$200 million from the IMF, and (vi) \$180 million from the World Bank.

released in 2021, upon full compliance with the conditions of the second tranche.

32. **Project loan.** The government has requested a regular loan of €17.74 million (\$20 million equivalent) from ADB's ordinary capital resources to finance the project component of the program. The loan will have a 23-year term, including a grace period of 14 years; an annual interest rate determined in accordance with ADB's LIBOR-based lending facility; a commitment charge of 0.15% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan agreements. Based on the straight-line method, the average maturity is 18.75 years, and there is an 0.20% maturity premium payable to ADB. ADB will finance civil works, goods, consulting and nonconsulting services, and related contingencies and financial charges during implementation. The government will finance expenditures related to taxes and duties.

33. **Climate finance.** Climate change mitigation measures, including the promotion of energy efficiency and NRW reduction in the policy and project, are estimated to cost \$6.5 million. Climate adaptation from four key policy actions is estimated to cost \$9.9 million. ADB will finance 100% of mitigation and adaptation costs.⁴³

E. Implementation Arrangements

34. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 41). The government requested advance action and retroactive financing for the procurement of goods and consulting services. All procurement financed under the project loan will follow the ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulation for ADB Borrowers (2017, as amended from time to time).

Table 3: Implementation Arrangements

Table 6: Implementation Arrangements			
Aspects	Arrangements		
Implementation period	Policy-based loan: November 2020–December 2021	Project loan: November 2020–December 2024	
Estimated completion date	31 December 2021	31 December 2024	
Estimated loans closing date	31 December 2021	30 June 2025	
Management			
(i) Oversight body	WSS steering committee chaired by MRDI minister Members: MRDI, MOESD, MOF, UWSCG within 3 months of the loan effectiveness		
(ii) Executing agency	Policy-based loan: MOF	Project loan: MRDI	
(iii) Key implementing agencies	Policy-based loan: MRDI and UWSCG	Project loan: UWSCG	
(iv) Implementation unit	IPMO, established by UWSCG		
Procurement	Open competitive bidding (internationally advertised): works	1 contract	\$8,610,000
	Open competitive bidding (internationally advertised): goods	1 contract	\$3,720,000
Consulting services	CQS: construction supervision consultant	106 person-months	\$850,000
	QCBS (90:10): O&M improvement	51 person-months	\$1,270,000
	QCBS (90:10): rural WSS sector development	132 person-months	\$3,820,000
	LCS: auditor	58 person-months	\$112,000
	ICS: IPMO staff		\$448,000
	ICS: public-awareness campaigns		\$70,000

⁴³ Climate Change Assessment (accessible from the list of linked documents in [Appendix 2](#)).

Aspects	Arrangements
Retroactive financing and advance contracting	Retroactive financing and advance contracting are proposed for the construction of the Telavi water supply system and the construction supervision consultant. Such financing will not exceed 20% of the project loan amount for expenditures incurred not more than 12 months prior to the signing of the loan agreement.
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.

ADB = Asian Development Bank, CQS = consultant's qualifications selection, ICS = individual consultant selection, IPMO = Investment Program Management Office, LCS = least-cost selection, MOESD = Ministry of Economy and Sustainable Development, MOF = Ministry of Finance, MRDI = Ministry of Regional Development and Infrastructure, O&M = operation and maintenance, QCBS = quality- and cost-based selection, UWSCG = United Water Supply Company of Georgia, WSS = water supply and sanitation.

Source: Asian Development Bank.

III. ATTACHED TECHNICAL ASSISTANCE

35. The TA will introduce an asset management system with high-level technology for water supply in select cities to demonstrate its benefits, which is an innovative approach for Georgia. The TA is estimated to cost \$250,000, of which \$225,000 will be financed on a grant basis by the High-Level Technology Fund (footnote 1). ADB will be the executing agency for the TA and will assist UWSCG in vetting technology solutions for asset management; it will also ensure its functional use through capacity building and knowledge sharing. The government will provide counterpart support of about \$25,000 in the form of staff, office accommodation, supplies, and other in-kind contributions.⁴⁴

IV. DUE DILIGENCE

A. Technical

36. The project is technically viable based on a comprehensive review of UWSCG's bidding document for the Telavi water system. ADB appraised the design based on rationale and relevance, benefits, and ease of implementation and operations. The technology selected for the rehabilitation of the water supply system is appropriate and compatible with local conditions. The project will optimize the implementation timelines through high project readiness.

B. Economic and Financial Viability

37. **Economic analysis.** The project is economically viable with an economic internal rate of return of 13.6%, above the 9.0% minimum required economic rate of return for ADB investment projects, and an economic net present value of \$3.9 million. This mainly reflects the substantial benefits from the project—health benefits from avoided time lost to illness and avoided medical treatment costs; and resource cost savings from less time spent collecting water, lower investment and O&M costs for water supply, and cost savings from a reduction in NRW. The economic viability is most sensitive to reductions in health benefits and resource costs savings. The sensitivity analyses confirm that the project is expected to remain viable under various adverse scenarios. The economic impact from the PBL-linked reforms is expected to be significant since UWSCG budget savings may be allocated to more productive activities.⁴⁵

38. **Financial analysis.** The project financial internal rate of return is 1.9% and the financial

⁴⁴ Attached Technical Assistance (accessible from the list of linked documents in [Appendix 2](#)).

⁴⁵ Economic Analysis (accessible from the list of linked documents in [Appendix 2](#)).

net present value, when discounted at the weighted average cost of capital of 0.8%, is \$4.3 million. Water and wastewater tariffs were assumed to increase in real terms by 50% in 2024 once the project is completed, and thereafter increase by 5% every 3 years. Financial benefits from the project consist of (i) additional revenue as a result of a tariff increase; and (ii) a reduction in NRW, which in turn enables UWSCG to bill more customers and save on energy consumption. The financial viability remains robust across adverse conditions: a 10% increase in investment costs, a 10% increase in O&M costs, a 10% decrease in benefits, and a 1-year construction delay.

39. **Tariff.** The current tariff is set at GEL0.68 per cubic meter (m³) (or \$0.22 per m³). If UWSCG were to achieve an operating ratio of 1 in 2019 with all other parameters unchanged, the average tariff would have to be increased to GEL0.99 per m³ (or \$0.32 per m³), a one-time increase of 45%. To cover its operational expenditures, including amortization and depreciation, and cover debt service obligations, UWSCG requires a tariff of GEL1.95 per m³ (or \$0.64 per m³), three times higher than the current one and without any operational enhancement measures.

C. Sustainability

40. The project's sustainability is rated *high* given the policy actions on asset and HR management. More efficient O&M and the attached TA in support of innovative water supply asset management will lead to the operational and financial sustainability of UWSCG.

41. The sustainability of policy reforms is high, considering the government's commitment to reforms with P3F. The government is also working on various complementary reforms to public investment management and SOEs, and the regulatory frameworks for PSP and PPP.

D. Governance

42. The pre-mitigation financial management risk is rated *moderate*. UWSCG has adequate financial management systems and adopted international standards for accounting and financial reporting. The 2018 Public Expenditure and Financial Accountability assessment report noted strong and improved country public financial management systems.⁴⁶ Georgia has successfully implemented the public financial management reform action plan to strengthen fiscal governance, transparency, budget reliability and execution, and external scrutiny and audit.⁴⁷

43. The procurement risk is *low*.⁴⁸ A project procurement risk assessment and strategic procurement planning were undertaken and found that the tender processes are aligned with international best practices and considered to be among the most transparent in Europe and Central Asia.⁴⁹ Major risks identified are the low capacity for bid evaluation and handling consulting service contracts, and ineffective implementation of projects. The ADB procurement complaint system will be used to mitigate the risks.

44. No significant integrity risks were identified.⁵⁰ ADB's Anticorruption Policy (1998, as

⁴⁶ EU. 2017. [Georgia: Public Financial Management Reform Strategy to 2018–2021](#). Brussels.

⁴⁷ World Bank. 2018. *Georgia Public Expenditure and Financial Accountability Performance Assessment Report*. Washington, DC.

⁴⁸ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in [Appendix 2](#)).

⁴⁹ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Secondary Road Improvement Project*. Risk Assessment and Risk Management Plan (accessible from the list of linked documents in [Appendix 2](#)). Manila; and Institute for Development of Freedom of Information. 2017. [Implementation Assessment of the Georgian Public Procurement Legislation](#). Tbilisi.

⁵⁰ Integrity due diligence was conducted in April 2020 on UWSCG.

amended to date) was explained to and discussed with the government and UWSCG. The specific policy requirements and supplementary measures are described in the PAM (footnote 41).

E. Poverty, Social, and Gender

45. The project contributes to poverty reduction through the provision of essential services. An inclusive policy, and stronger governance and utility management will increase coverage and equity of access to water services across different social groups, including low-income households.

46. The program is classified *effective gender mainstreaming*. UWSCG has implemented gender mainstreaming activities under the ongoing MFF, which will be further reinforced and expanded (footnote 36). The program will help (i) develop a gender-sensitive WSS policy to increase women's participation, employment, and technical participation in WSS; (ii) boost women's representation in decision-making structures; (iii) adopt gender-sensitive HR policies to give women opportunities for career advancement, and protect them from sexual harassment, among other gender-based concerns; (iv) involve women in all training sessions for UWSCG; and (v) formulate a gender-sensitive public communication strategy.

F. Safeguards

47. In compliance with ADB's Safeguard Policy Statement (2009), all safeguard documents were prepared based on consultations with affected people and communities, endorsed by the government authorities, and disclosed on the ADB website in accordance with ADB's Access to Information Policy.⁵¹ Grievance redress, monitoring, and reporting procedures were agreed with UWSCG and specified in all safeguard documents. The project includes adequate resources to implement and monitor mitigation measures. For the PBL, no significant environmental and social impact is anticipated.

48. **Environment (category B).** The project is not within or adjacent to any environmentally sensitive areas. It is expected to have temporary and site-specific adverse impacts on the environment. Adequate mitigation measures were incorporated into the project design and will be implemented through the environmental management plan.⁵²

49. **Involuntary resettlement (category B).** No land acquisition and resettlement impacts are expected since the project activities are planned to be carried out on state-owned land not used by any person. No physical or economic displacement will occur. A land acquisition and resettlement framework was prepared to guide future screening and resettlement planning, if any.⁵³

50. **Indigenous peoples (category C).** No indigenous peoples live in the project areas as defined in the Safeguard Policy Statement.

⁵¹ ADB. [Safeguard Categories](#).

⁵² The initial environmental examination was disclosed in July 2020. Site-specific adverse impacts include air pollution, soil erosion, and surface water pollution; noise and vibration; and solid waste generation. Impacts on existing infrastructure, traffic disruptions, and occupational and community health and safety issues may also arise. Public consultations were held in June 2020.

⁵³ The land acquisition and resettlement framework and social due diligence report were disclosed in July 2020. The land acquisition and resettlement framework was developed as a precautionary measure for alignment changes, if any, during the implementation.

G. Summary of Risk Assessment and Risk Management Plan

51. The project's pre-mitigation risk is rated *moderate*. High risks and mitigation measures are described in the risk assessment and risk management plan.⁵⁴

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Delays in rationalizing tariffs and achieving financial sustainability	ADB technical assistance is supporting the Georgian National Energy and Water Supply Regulatory Commission's tariff reform to improve cost recovery, tariff affordability, and financial sustainability. ^a ADB will continue to engage in policy dialogue and monitor the government's reform progress under the post-program partnership framework.

ADB = Asian Development Bank.

^a ADB. 2019. *Technical Assistance Facility to Georgia for Preparing Integrated Solutions for Livable Cities*. Manila. Source: Asian Development Bank.

V. ASSURANCES

52. The government and UWSCG have assured ADB that the implementation of the program shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement, as described in detail in the PAM and loan documents. The government has agreed with ADB on certain covenants for the program, which are set forth in the draft loan agreements. As a condition to disbursement, a subsidiary loan agreement acceptable to ADB must be duly authorized, executed, and delivered on behalf of the borrower, MRDI, and UWSCG, as set out in the draft project loan agreement.

VI. RECOMMENDATION

53. I am satisfied that the proposed loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the policy-based loan of €115,310,000 to Georgia for the Sustainable Water Supply and Sanitation Sector Development Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft program loan agreement presented to the Board; and
- (ii) the project loan of €17,740,000 to Georgia for the Sustainable Water Supply and Sanitation Sector Development Program, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 23 years, including a grace period of 14 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft project loan agreement and program agreement presented to the Board.

Masatsugu Asakawa
President

9 September 2020

⁵⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in [Appendix 2](#)).

DESIGN AND MONITORING FRAMEWORK

Impacts the Program is Aligned with Living conditions and public health in Georgia improved (Regional Development Program of Georgia 2018–2021) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Performance and financial sustainability of WSS services improved	By 2025: a. Average duration of water supply provided to piped network increased to 22 hours/day (2019 baseline: 16.4 hours/day) (OP 4.1.1) b. NRW rate of UWSCG reduced to 47% (2019 baseline: 77%) (OP 4.1.1) c. Operational efficiency improved to an operating ratio ^b of 1 (2019 baseline: 1.45) (OP 6.1)	a.–b. UWSCG and GNERC annual reports c. UWSCG annual audited financial statements	UWSCG delays application and implementation of tariff determined by GNERC because of prolonged economic slowdown associated with COVID-19.
Reform Area WSS governance and institutions strengthened	Key Policy Actions By 2020: 1a. Law on Energy and Water Supply approved (2018 baseline: Law on Electricity and Natural Gas) (OP 4.2.1) 1b. Investment appraisal rules introduced, and WSS tariff methodology amended (2018 baseline: NA) (OP 4.2.1) 1c. WSS committee established with minimum 30% women representatives (2019 baseline: NA) (OP 2.3; OP 6.2.3) 1d. Supervisory board of UWSCG established with at least 30% women representatives (2019 baseline: NA) (OP 2.3; OP 6.2.3) 1e. HR reform and change management committees established (2019 baseline: NA) 1f. UWSCG staff regulations and HR management policy issued (2019 baseline: NA) 1g. Metering program, public communication strategy, and time-bound action plan for outsourcing adopted (2019 baseline: NA) By 2021: 1h. Draft law on water resources management submitted to the Parliament (2019: NA) (OP 4.2.1) 1i. WSS policy with gender- and climate-sensitive provisions, and sector development framework 2021–2030	1a. Approved Law on Energy and Water 1b. Approved GNERC resolution 1c. Ministerial order 1d. Ministerial order and an amended UWSCG charter 1e. UWSCG executive order 1f. Staff regulations and HR policy 1g. UWSCG executive order 1h. Draft law on water resources management 1i. WSS policy and sector	Public resistance could hinder policy reforms.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>adopted (2019 baseline: NA) (OP 1.3.3; OP 4.2.1)</p> <p>1j. UWSCG charter amended (2019 baseline: NA)</p> <p>1k. Corporate restructuring plan approved (2019 baseline: NA)</p> <p>1l. Performance agreements formalized (2019 baseline: NA)</p> <p>1m. Revenue-enhancement and cost-reduction programs approved (2019 baseline: efficiency rated <i>low</i>)</p> <p>1n. HR management development plans issued and staff performance management system implemented (2019 baseline: NA)</p> <p>1o. PSP-PPP road map and pipeline prepared (2019 baseline: NA)</p> <p>1p. Water safety plan adopted (2019 baseline: NA) (OP 3.2.4)</p>	<p>development framework</p> <p>1j. Amended charter</p> <p>1k. Approved plan and organogram</p> <p>1l. Signed performance agreements</p> <p>1m. Corporate strategies and programs</p> <p>1n. HR reform progress report</p> <p>1o. PSP-PPP road map and pipeline</p> <p>1p. Water safety plan</p>	
<p>Project Output</p> <p>Operational efficiency of WSS services increased</p>	<p>By 2024:</p> <p>2a. In Telavi:</p> <p>(i) 1.6 km of transmission mains and 59 km of distribution lines rehabilitated and upgraded (2019 baseline: old and nonfunctional network) (OP 4.1.2)</p> <p>(ii) 6 new boreholes constructed, and 5 boreholes rehabilitated (2019 baseline: 5 nonfunctional boreholes) (OP 4.1.2)</p> <p>2b. NRW baseline and target developed for each UWSCG service center (2019 baseline: NA)</p> <p>2c. At least 500 UWSCG staff (30% of them women)^c improved technical, financial, management, and leadership skills (2019 baseline: NA) (OP 6.1)</p> <p>2d. A rural WSS strategy and investment plan developed and accepted for implementation by the Ministry of Regional Development and Infrastructure, with at least 80% of training plans implemented (2019 baseline: NA) (OP 4.2.1)</p> <p>2e. At least 90% of households serviced by UWSCG have been reached through multimedia campaigns and report increased awareness of hygiene, sanitation, customer rights, and water conservation (2020 baseline: NA)</p> <p>2f. Under attached transaction TA: high-tech asset management system for water supply implemented in at least one city where UWSCG operates (2020 baseline:</p>	<p>2a. Supervision engineer's monthly progress report</p> <p>2b. O&M improvement progress report</p> <p>2c. Issued training certificates</p> <p>2d. Rural WSS strategy and investment plan and quarterly training progress report</p> <p>2e. Household surveys</p> <p>2f. Transaction TA progress and completion report</p>	<p>COVID-19 delays mobilization of consultants and contractors.</p> <p>Prices of materials increase beyond projections.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	no high-tech asset management system operational)		

Key Activities with Milestones

Project output: operational efficiency of WSS services increased

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

Program Management Activities

Conduct baseline data surveys (November 2020) and establish a program monitoring and evaluation system, and a program performance management system.
Implement periodic gender action plan, conduct public awareness campaigns, and monitor compliance with safeguards.

Inputs

Asian Development Bank: €133.05 million or \$150.00 million equivalent (regular loan)
Policy component: €115.31 million or \$130.00 million equivalent (ordinary capital resources)
Project component: €17.74 million or \$20.00 million equivalent (ordinary capital resources)
High-Level Technology Fund: \$225,000
Government of Georgia: €3.10 million or \$3.5 million

Assumptions for Partner Financing

NA

COVID-19 = coronavirus disease, GNERC = Georgian National Energy and Water Supply Regulatory Commission, HR = human resource, km = kilometer, NA = not applicable, NRW = nonrevenue water, O&M = operation and maintenance, OP = operational priority, PPP = public-private partnership, PSP = private sector participation, Q = quarter, TA = technical assistance, UWSCG = United Water Supply Company of Georgia, WSS = water supply and sanitation.

^a Government of Georgia. 2018. *Regional Development Program of Georgia 2018–2021*. 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, taxes, 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 as well as other revenues, excluding grants from the government.

^c The current proportion of women among UWSCG staff is 25.6%.

Contribution to Strategy 2030 Operational Priorities:

- OP 1.3.3 Measures for increased inclusiveness supported (number). Target: 1 (WSS policy)
- OP 2.3 Women represented in decision-making structures and processes (number). Target: 6 (Minimum 30% women representatives on the (i) 8-member WSS committee, and (ii) 10-member supervisory board)
- OP 3.2.4 National and subnational disaster risk reduction and/or management plans supported in implementation (number). Target: 1 (water safety plan)
- OP 4.1.1 Service providers with improved performance (number). Target: 1 (UWSCG)
- OP 4.1.2 Urban infrastructure assets established or improved (number). Target: 13 (transmission mains, distribution network, 6 new boreholes and 5 rehabilitated boreholes)
- OP 4.2.1 Measures to improve regulatory, legal, and institutional environment for better planning supported in implementation (number). Target: 5 (Law on Energy and Water Supply, Investment Appraisal Rules, draft Law on Water Resources Management, WSS policy, Rural WSS strategy and investment plan)
- OP 6.1 Entities with improved management functions and financial stability (number). Target: 1 (UWSCG)
- OP 6.2.3 Measures to strengthen state-owned enterprise governance supported in implementation (number). Target: 2 (WSS committee, supervisory board)

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=51132-002-3>

1. Loan Agreement: Program
2. Loan Agreement: Project
3. Project Agreement
4. Sector Assessment (Summary): Water and Other Infrastructure and Services
5. Project Administration Manual
6. Development Coordination
7. Country Economic Indicators
8. International Monetary Fund Assessment Letter¹
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan
11. List of Ineligible Items
12. Attached Technical Assistance Report
13. Financial Analysis
14. Economic Analysis
15. Fiscal Impact Assessment
16. Climate Change Assessment
17. Gender Action Plan
18. Initial Environmental Examination
19. Social Due Diligence Report
20. Land Acquisition and Resettlement Framework

Supplementary Documents

21. Strategic Procurement Planning Report
22. Project Procurement Risk Assessment and Management Plan
23. Potential Safeguard Impacts per Policy Action

¹ The International Monetary Fund (IMF) confirmed on 14 June 2020 that the attached IMF Assessment Letter may serve as the IMF assessment letter.



საქართველოს
ფინანსთა მინისტრი
Minister of Finance
of Georgia

N^o 07-05/91798
11 / 08 / 2020

DEVELOPMENT POLICY LETTER

Mr. Masatsugu Asakawa
President
Asian Development Bank
Manila, Philippines

Subject: Sustainable Water Supply and Sanitation Sector Development Program

Dear President Asakawa,

I am pleased to convey full support and commitment from the Government of Georgia for the comprehensive reforms in the water supply and sanitation (WSS) sector and the state WSS service provider, the United Water Supply Company of Georgia (UWSCG).

The Ministry of Regional Development and Infrastructure (MRDI) expressed the unequivocal commitment to implement the Sector Development Program (SDP). UWSCG also provided firm assurances to the Government of Georgia to continue undertaking the corporate and human resources reforms agreed under the SDP.

The SDP is highly relevant amidst COVID-19. Georgia's total financing needs for 2020–2021 are substantial, given the impact of the COVID-19 pandemic on the economy. The SDP will provide much needed budget support to enhance sector performance and ensure funding for basic service. Adequate provision of WSS and improved hygiene conditions contribute to improved environmental and public health and contained spread of infectious disease. In addition to positive health outcomes, the reforms in Georgia's WSS sector are critical for raising living standards, resilience to climate change, and gender equality; and for reducing sector inefficiencies and dependence on the state budget.

The SDP is strategically fit with the government priorities for the sector stipulated in the Social-economic Development Strategy of Georgia, Decentralization Strategy 2019–2025, Rural Development Strategy, nationalized Sustainable Development Goals. It is also aligned with the government's plan towards the integrated water resources management and river basin management to harmonize with the European Union (EU) Water Framework Directive under the 2016 Association Agreement between Georgia and EU. It is further aligned with the planned

state-owned enterprise (SOE) reforms initiative currently under discussion with the International Monetary Fund.

It is the government priority to improve and expand the WSS services beyond the urban areas. A sustainable and feasible solution for rural and peri-urban WSS needs to be integrated in the sector development scope for more impactful poverty reduction, and inclusive and balanced socio-economic development, with focus on increasing equity in access to WSS for women, the poor and underserved.

The WSS infrastructure and service deficit remain a key policy barrier to advancing the government's sector goal and leveraging the economic potential. We are making concerted efforts to mobilize funds to improve the WSS infrastructure and associated institutional reforms. Since 2007, Georgia made considerable progress towards infrastructure development with the support of ADB providing \$593 million for the water and other infrastructure and services. The \$500 million Urban Services Improvement Investment Program, financed by ADB, is a flagship government program. It is the government's priority to sustain functionality of completed systems and upgrade service levels.

The Urban Sector Development Plan, 2011–2020 indicated \$1.6 billion investments with about 50% of funds mobilized from donors.

The government has started rolling out an ambitious WSS sector reforms package to effectively manage and sustain asset and attract additional investments, and to align sector management and operations with the envisaged changes in the overarching legal and institutional framework. WSS sector performance and financial sustainability in Georgia will be improved through (i) strengthened sector governance and capacity including the UWSCG's corporate governance, and (ii) increased WSS operational efficiency.

The government's sector reforms program comprise (i) improving the managerial, operational, and financial capacity of UWSCG to become more autonomous, accountable, efficient and sustainable through corporate and HR reforms; (ii) strengthening the legal, regulatory and institutional environment to enable cost recovery and upgrading level of service; (iii) developing a national central policy for more balanced and inclusive development in urban and rural WSS; and (iv) promoting technology, outsourcing and other forms of partnership with the private sector to facilitate change and introduce innovative solutions.

In light of the above, we would like to request ADB's financing in the form of:

- (i) A policy-based loan, amounting to \$130 million from ADB's Ordinary Capital Resources (OCR), to ensure funding for basic services during a period of severe fiscal constraints as well as for the government's ongoing reforms of sector governance and institutions to strengthen the sector's performance and financial sustainability; and,
- (ii) A project loan, amounting to \$20 million from ADB's OCR to finance (i) a critical and procurement-ready water supply systems in Telavi, (ii) strengthen operation and maintenance capacity, and (iii) prepare for a national rural WSS strategy and investment plan, all of which will contribute to increasing the operational efficiency of both urban and rural WSS.

The government is fully committed to the reform and is determined to implement the actions outlined in the policy matrix within the agreed timeline. The policy-based loan benefits will not

only help to sustain project investment sustainability but will extend beyond the above program. It will help to safeguard and extend the useful life of the government's total investment in the sector, which will reach over \$1 billion in 2020, and catalyze private sector participation and financing.

The Georgia delegation, including the representatives from the Ministry of Finance, MRDI and UWSCG would be happy to conduct the negotiations for both loans in August 2020.

Sincerely yours,

A handwritten signature in blue ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Ivane Matchavariani.

Ivane Matchavariani
Minister of Finance and ADB Governor

POLICY MATRIX

All policy actions for tranche 1 have been completed.

	Actions prior to First Tranche Release (November 2020)	Actions prior to Second Tranche Release (July 2021)	Post-Program Partnership Framework (2021–2024)
Urban and rural WSS sector governance strengthened	Enhanced legal and institutional frameworks to achieve WSS policy outcomes		
	<p>1. Parliament approved the Law of Georgia on Energy and Water Supply (previously Law on Electricity and Gas) to ensure uniform regulatory accounting system.</p> <p>DE/RA: Law of Georgia on Energy and Water Supply as enacted and published in the Legislative Herald of Georgia and www.matsne.gov.ge [GNERC, MoESD]</p>	<p>1. The Government of Georgia submits the Law on Water Resources Management to the Parliament of Georgia for approval to incorporate all aspects of integrated water resources management including establishment of river basin management and harmonize Georgia's environmental legislation with the EU Water Framework Directive.</p> <p>DE/RA: Law on Water Resources Management as submitted to the Parliament [MoEPA/MRDI]</p>	<p>GNERC requires WSS licensees in Georgia to report to them using uniform regulatory accounting system for improved transparency and performance benchmarking.</p> <p>Consulting-Coordinating Council of Basin Management oversee compliance of the MRDI, UWSCG, municipalities, municipal water companies, and community-based organizations in the WSS sector with the provisions of the envisaged Law on Water Resources Management.</p>
	<p>2. GNERC passed a resolution on Rule for Appraisal of Investments in the WSS sector to streamline and strengthen the principles and criteria for the development, submission, appraisal, approval, monitoring and modification of investment plans for all licensees whose tariffs are set by GNERC.</p> <p>DE/RA: GNERC Resolution N27 on Investment Appraisal Rules published in the Legislative Herald of Georgia and www.matsne.gov.ge [GNERC]</p>		<p>GNERC makes available to the public the approved tariff, service and KPI— with associated calculation protocols— status and targets of all WSS licensees.</p> <p>GNERC develops further tariff structure and customers' charging rules in accordance with the relevant legislation to improve cost recovery, tariff affordability, and financial sustainability.</p>
	<p>3. MRDI established a Steering Committee for WSS comprising</p>	<p>2. MRDI approves a Vision and Policy Statement for the WSS sector</p>	

	Actions prior to First Tranche Release (November 2020)	Actions prior to Second Tranche Release (July 2021)	Post-Program Partnership Framework (2021–2024)
	<p>members from MRDI, MoEPA, and municipalities with at least 30% women members to plan, coordinate, implement, and monitor the WSS Sector Vision and Policy Statement (urban and rural), and facilitate adoption and implementation of the WSS Sector Development Framework 2021–2030.</p> <p>DE/RA: Order of MRDI Minister [MRDI]</p>	<p>covering both urban and rural including wastewater and stormwater management strategy and promoting adherence to integrated water resources management principles, good sector and service provider governance. The Vision and Policy Statement will include environmental and climate-friendly features and gender-specific provisions that will improve women's access to water and ensure their participation in community discussions and decision-making as water users and consumers.</p> <p>DE/RA: Order of MRDI Minister and approved Vision and Policy Statement for WSS sector disclosed on www.mrdi.gov.ge [MRDI]</p>	
		<p>3. MRDI prepares its WSS Sector Development Framework for 2021–2030 in consultation with UWSCG, municipalities, municipal water companies, community-based organizations, and river basin committees, and adopts the Framework to achieve continuous urban WSS and safe WSS in rural areas by 2030, with considerations for technical sustainability—including climate resilience, and environmental protection, as well as institutional and financial sustainability for the urban and rural WSS.</p>	<p>MRDI implements the approved WSS Sector Development Framework 2021–2030.</p>

	Actions prior to First Tranche Release (November 2020)	Actions prior to Second Tranche Release (July 2021)	Post-Program Partnership Framework (2021–2024)
		DE/RA: Order of the MRDI Minister and approved 2021–2030 WSS Sector Development Framework [MRDI]	
	Effective cost recovery under WSS tariff regulatory frameworks		
	<p>4. GNERC amended the Tariff Setting Methodology to incentivize the utility to (i) increase efficiency through cost optimization, (ii) promote growth of financial returns of utility through increase of operational and management efficiency, and (iii) ensure transparent, stable, and fair tariff rates.</p> <p>DE/RA: Amendment to the Resolution N14 Tariff Setting Methodology published in the Legislative Herald of Georgia and www.matsne.gov.ge [GNERC]</p>	<p>4. As one of the first pilot SOE reforms initiative, UWSCG implements the SCI that will include an approved company business plan. The business plan will include cost reduction and revenue enhancement measures and tariff rationalization actions to achieve the operating ratio of at least 1 by 2023 from 1.45 in 2019.</p> <p>DE/RA: MRDI approved SCI documentation package, including UWSCG business plan with a time-bound action plan to achieve cost recovery in operating activities, disclosed on Ministry of Finance website; GNERC's letter confirming receipt of the documents—financial statement, business plan, and investment plan for tariff rationalization—from UWSCG [UWSCG/MRDI/MOF]</p>	<p>UWSCG under the national SOE reforms initiative, (i) appoints at least 30% external members for the Supervisory Board, and (ii) submits annual compliance reports to assess level of compliance with SCI, related norm, and standard requirements.</p> <p>UWSCG maintains an operating ratio of at least 1 from FY2023 and holds regular tariff reviews with GNERC, as required by relevant tariff related laws and regulations.</p> <p>UWSCG publishes its annual report in the Accounting, Reporting, and Auditing Supervision Service website www.saras.gov.ge.</p>
UWSCG governance and management effectiveness improved	A. Enhanced management autonomy and accountability		
	<p>5. Supervisory Board for UWSCG is established with minimum 30% women representatives and at least one external member to review and approve major corporate objectives, business plans, and strategies as initiated by UWSCG management, and monitor and review UWSCG</p>	<p>5. UWSCG amends the existing company charter to detail responsibilities, rights, and obligations of the Director, particularly for day to day management of UWSCG, Supervisory Board, HR Reforms</p>	<p>In line with the national-level SOE reform, the Supervisory Board for UWSCG adopts the OECD Guidelines on Corporate Governance of SOEs (2015).</p>

	Actions prior to First Tranche Release (November 2020)	Actions prior to Second Tranche Release (July 2021)	Post-Program Partnership Framework (2021–2024)
	management, and ensure legal and regulatory compliance. DE/RA: Order of the MRDI Minister [MRDI]	Committee, and Change Management Committee. DE/RA: UWSCG Executive Order with approved revised company charter [UWSCG]	
	B. Strengthened operational efficiency and effectiveness		
	6. UWSCG established a high-powered Change Management Committee with suitable experts authorized to propose, support, approve, and modify large-scale macro-change efforts in order to facilitate corporate restructuring. DE/RA: UWSCG Executive Order and approved terms of reference for the Change Management Committee [UWSCG]	6. UWSCG Supervisory Board approves a corporate restructuring plan encompassing streamlined HQ business units, regional offices, and service centers with a focus on geographical delineations based on river basins and integrated water resources management. DE/RA: Restructuring plan and new organogram approved by the Supervisory Board [UWSCG]	UWSCG restructures regional offices and service centers as per the restructuring plan to enable these offices/centers to carry out day to day operational activities based on revised authorities granted by UWSCG HQ in accord with their respective performance agreement.
		7. UWSCG enters into performance agreements with (i) regional offices and service centers and (ii) MRDI. The performance agreements will include roles and responsibilities of the parties, KPIs, and incentives. DE/RA: Signed performance agreements between UWSCG and regional offices, and between UWSCG and MRDI [UWSCG/MRDI]	MRDI holds annual performance reviews of UWSCG.
	7. UWSCG approved the (i) Metering Program to achieve 100% bulk meter installation by the end of 2022 (from 11% in 2019) and 80% of household metering by 2025 (from 58% in 2019) within the boundaries of the UWSCG service area; and (ii) Public	8. UWSCG (i) adopts (a) Asset Management Policy, and (b) Nonrevenue Water (NRW) Reduction Strategy 2021–2025 to progressively reduce NRW to at most 47% in 2025 from 77% of the water	UWSCG completes 100% bulk meter installation by end 2022, and at least 75% of household metering by 2024. UWSCG progressively reduces NRW based on the NRW reduction strategy 2021–2015 and continuously

	Actions prior to First Tranche Release (November 2020)	Actions prior to Second Tranche Release (July 2021)	Post-Program Partnership Framework (2021–2024)
	<p>Communication Strategy to engage with the public effectively for customer outreach and care, with attention to addressing women’s needs, rational use of water, and increased public awareness on health, hygiene, and sanitation to prevent the spread of COVID-19 and other diseases.</p> <p>DE/RA: UWSCG Executive Orders; approved Metering Program and Action Plan; Public Communication Strategy [UWSCG]</p>	<p>supplied in the network in 2019, (ii) initiates implementation of the Metering Program.</p> <p>DE/RA: UWSCG Executive Orders and approved Asset Management Policy and NRW Reduction Strategy [UWSCG]</p>	<p>implements public communication strategy.</p> <p>UWSCG implements asset management process following ISO standards.</p>
	<p>8. UWSCG approved Internal Staff Regulations and HR Management Policy, and established an HR Reforms Committee to provide (i) policy direction on HR management issues and administrative support functions related to the management of employees for all the organization, and (ii) HR development programs that attract, develop, retain, and engage a skilled, diverse, and gender equitable workforce, with 80% of the staff improved knowledge by 2025.</p> <p>DE/RA: UWSCG approved Internal Staff Regulation; UWSCG approved HR Management Policy; UWSCG Executive Order establishing HR Reforms Committee with approved HR Reforms Committee terms of reference [UWSCG]</p>	<p>9. UWSCG adopts an HR Management Development Plan, and implements (i) salary, compensation, and benefits reviews, (ii) staff performance management system, (iii) incentive and recognition programs, (iv) gender equality policy provisions to address specific needs of women staff such as maternity leaves, among others, and (v) workforce rationalization through timely retirement, voluntary or involuntary early retirement, retrenchment (performance and personnel-driven) and re-training programs for minimum 200 UWSCG’s staff development and training annually.</p> <p>DE/RA: HR Reforms Committee approved HR Management Development Plan; Minutes of the HR Reforms Committee meeting on</p>	<p>UWSCG continuously implements HR Management Development Plan according to the HR Reforms Committee recommendations.</p>

	Actions prior to First Tranche Release (November 2020)	Actions prior to Second Tranche Release (July 2021)	Post-Program Partnership Framework (2021–2024)
		the implementation progress of HR Management Development Plan [UWSCG]	
		10. UWSCG adopts a Water Safety Plan for the cities with a population of 20,000 or more to facilitate emergency responses to disasters, including from virus pandemics and higher likelihood and frequency of waterborne diseases induced by climate change, following the WHO Water Safety Manual (2005 as amended from time to time). DE/RA: UWSCG Executive Order with UWSCG adopted Water Safety Plan [UWSCG]	The Georgian National Accreditation Center (www.gac.gov.ge) accredits UWSCG's central water lab. UWSCG implements the Water Safety Plan for selected target cities as specified in the Plan.
C. Mainstreamed outsourcing and catalyzed private sector engagement			
	9. UWSCG issued the Executive Order to mainstream outsourcing in UWSCG operations with identified time-bound action plan including but not limited to the areas of installation of new house-connections, meter installation, meter reading, repair works, billing and collection, car fleet, and maintenance of electrical and mechanical equipment. DE/RA: UWSCG Executive Order [UWSCG]	11. UWSCG submits PSP and PPP road map and WSS PSP or PPP project pipeline to MRDI for approval. The WSS PSP or PPP project pipeline will include information on a list of priority PSP or PPP projects, rationale, location, scope, estimated capital expenditure, and potential source of revenues. DE/RA: PSP and PPP roadmap and pipeline submitted to MRDI [UWSCG]	UWSCG outsources selected services and establishes contractual relationships with private companies. UWSCG issues a request for proposal to procure a WSS PSP or PPP project through competitive bidding procedures based on market practice.

DE/RA = documentary evidence/responsible agency, GNERC = Georgian National Energy and Water Supply Regulatory Commission, HR = human resource, KPI = key performance indicator, MoEPA = Ministry of Environmental Protection and Agriculture, MoESD = Ministry of Economy and Sustainable Development, MRDI = Ministry of Regional Development and Infrastructure, NRW = nonrevenue water, OECD = Organisation for Economic Co-operation and Development, PPP = public-private partnership as defined in ADB's Public-Private Partnership Operational Plan 2012–2020 (amended from time to time), PSP = private sector participation as defined in ADB's Public-Private Partnership Operational Plan 2012–2020 (amended from time to time), SCI = Statement of Corporate Intent, SOE = state-owned enterprise, TOR = terms of reference, UWSCG = United Water Supply Company of Georgia, WSS = water supply and sanitation.

Notes:

UWSCG is a state-owned water supply and wastewater service provider, MRDI in charge of UWSCG as delegated by MoESD, the asset holder.

GNERC is the national regulatory body for electricity, natural gas, and water/wastewater.

Nonrevenue water as defined by GNERC.

Operating ratio means the ratio of UWSCG's operating expenses over its operating revenue. *Operating expenses* means all expenses of UWSCG on operation and maintenance including staff salaries, cost of energy, chemicals, routine maintenance, spare parts, consumables, taxes, etc. but excluding capital expenditure, debt service obligations, amortizations, and depreciation. *Operating revenue* means the revenue collected by UWSCG from the sale of water and other revenues excluding grants from the government.

Statement of Corporate Intent will define the scope of the public corporation's business, objectives, and strategies to achieve its objectives. It will further include (i) limits of the risks, (ii) any transfers the public corporation shall receive from or pay to the budget to compensate for competitive disadvantages and advantages and to compensate for undertaking activities at the government's explicit direction, (iii) the consequences of the public corporation's failure to achieve its objectives or comply with its risk or other obligations, and (iv) any other provisions as the Ministry of Finance requires at any time.