

EBRD water projects in Georgia

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CEE Bankwatch Network's mission is to prevent the environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation

Background

Since Georgia's independence in the early 1990s, due to financial constraints maintenance and repair works at most of the water utilities have been neglected. This has resulted in poor sanitary-technical conditions in water utilities, with frequent accidents in water and wastewater systems, decreasing access to safe drinking water, drinking water losses and contamination of the receiving and ground water bodies. It is also notable that the social factor (assessment of the acceptability of water tariffs) is not taken into account in the process of tariff design¹.

In order to improve the situation in the water sector, several Georgian city councils have approached the EBRD for financing. As a result the EBRD has undertaken a number of water projects in several cities, namely the Tbilisi Water Supply Improvement Project, Kobuleti Water Project and Kutaisi Water Project, and is currently considering projects in Borjomi and Rustavi.

The projects involve mainly rehabilitation works for decreasing water losses and increasing water quality, water metering (in Tbilisi, collective metering) and preparing public-private partnerships for water supply in some cases. While some of the aims of the projects should be welcomed, the decision-making processes, implementation of the projects and the lack of public consultation has caused concerns about the outcomes of the projects.

Problems include the non-existence of social mitigation plans in tariff reforms, violation of customers' rights, and the lack of transparency and public consultations.

Sudden and legally dubious privatisation in Tbilisi

A few days after the EBRD's approval of the Tbilisi water project,² Tbilisi City Hall and the Ministry of the Economy announced a tender for the Tbilisi water company not envisaged by the EBRD project³. On October 27, 2007 a little-known Swiss company, Multiplex Solutions, was announced as the new owner of the Tbilisi Water Company, even though according to media reports it has no experience with managing water supplies. It is far from clear whether this company will bring improvements to Tbilisi's water system.

¹ OECD: EAP Task Force Document 2: "Financing Strategy for the Urban Water Supply and Sanitation Sector in Georgia", page 19

² In July 10, 2007 the EBRD approved Tbilisi Water Supply Improvement Project

³ The preparation of a PPP was envisaged in the EBRD project

It is vital to note that the tender was announced without any decision by Tbilisi City Council, thus violating the Georgian Law on Privatisation,⁴ and rendering this privatisation illegal.

In order to overcome the problems with the privatisation, in November 2007⁵ Georgia's president issued a decree, selling to Multiplex Solutions not only the Tbilisi water utility but also the Rustavi and Mtskheta water utilities too. However, the contract with the company was not signed.

In April 2008 another decree was issued by the president, again selling these utilities to the company but with slightly different conditions: the bank-guaranteed amount of money that the company was obliged to provide decreased from USD 25 million to USD 5 million; the price for the Rustavi water utility decreased from USD 15 million to USD 10 million and the time frame for paying decreased to 35 days instead of a year, raising suspicions that the income was needed before the elections in Georgia. Green Alternative believes that a decree issued by one person is a totally inappropriate process for making important strategic decisions such as selling municipal water companies.

The beneficiary of the EBRD Tbilisi project has changed from a public to a private company and as a result the assessments carried out by the EBRD on the beneficiary's ability to carry out the project no longer apply. Yet the EBRD refuses to withdraw from the project⁶.

Transparency and public participation

Despite the fact that the United Nations international covenant⁷ on the "right to water" demands transparency and public participation regarding issues that may affect people's right to water, these elements are completely lacking in the EBRD water projects in Georgia.

In the Tbilisi case, for instance, a number of requests were made to the EBRD, Tbilisi City Council and Tbilisi Water Company to provide the feasibility study and audit of the water company included in the project, and to organise public consultations regarding some components of the project. Yet neither the feasibility study nor the audit report of the water company were disclosed nor were public consultations held.

The same story has also been repeated with the Rustavi and Borjomi Water projects. According to the response letter of an EBRD representative on the issue: "*We cannot give you audited accounts or the feasibility studies of our Clients. You would have to approach the Company with your request. We are happy to meet with you and discuss our projects, but we can never give out company specific information*"⁸.

⁴ **Georgian law on Privatisation paragraph 3(5):** As long as the Tbilisi Water Company is municipally-owned, a decision on its privatization has to be taken by Tbilisi City Council

⁵ The president's decree was issued the day before he resigned

⁶ According to the response letter from executive directors of EBRD "the bank will review carefully the privatization against our criteria both in terms of the process and the successful bidder. However the bank considers that it is not appropriate to withdraw its approval for the project at this time"

⁷ According to the UN "Substantive Issues Arising In The Implementation Of The International Covenant On Economic, Social And Cultural Rights, General Comment No 15 (2002): The right to water (arts. 11 and 12 of the International Covenant on Economic, Social and Cultural Rights) (paragraph 48): "The formulation and implementation of national water strategies and plans of action should respect, inter alia, the principles of nondiscrimination and people's participation. The right of individuals and groups to participate in decision-making processes that may affect their exercise of the right to water must be an integral part of any policy, programme or strategy concerning water. Individuals and groups should be given full and equal access to information concerning water, water services and the environment, held by public authorities or third parties".

⁸ Response e-letter of Katarina Hansen, Operation leader of several water projects in Georgia, January 17, 2008

The examples above show that the EBRD has not taken sufficient action to ensure adherence to international norms and raise doubts among residents about whether, after the implementation of the water projects, the problems of access to a *sustainable and safe* water supply will be solved.

Collective metering of residential blocks and consumer rights

Another problematic issue is collective metering in Tbilisi, which was, from the beginning, rejected by NGOs and experts as unconstitutional due to its tendency to create conflicts among neighbours in areas with high levels of bill non-payment.

The idea of individual metering was rejected with the claim that in Tbilisi each apartment needs four water meters⁹, thus significantly increasing the project costs. However, it is not clear why four water meters were mentioned when there is only one incoming water supply per household in the whole city (hot water has not been provided to Tbilisi citizens for almost 17 years). Moreover, if in other Georgian cities installing individual metering is technically acceptable it is not clear why the same can not be done in Tbilisi.

In 2007 the Tbilisi Water Company started to install collective water meters in some Tbilisi districts. However, in the Vashlijvari district, where installation was completed in April 2007, people still pay fixed water fees of 800 l of water per day per person, despite the fact that collective bills show that consumption is much lower, representing a clear violation of citizens' rights.

Water tariff determination

On November 20, 2007, changes were made in the legislation and an independent National Energy and Water Regulation Committee was obliged to determine water prices in the country. However it should be noted that water prices for some water utilities (Tbilisi Water, Mtskheta Water) were already determined beforehand (2008-2018) by a decree of the president, not taking into account any affordability limits or support to low income groups.

Some EBRD water projects are aiming to address water affordability problems. For instance, in the case of the Kobuleti water project, the project summary document stresses the EBRD's intention to "support introduction of tariff reform within affordability limits including support to low income groups". Yet in other projects like the Tbilisi water project this important element is missing.

According to the president's decree, from 2009 the water tariff per cubic metre of water in Tbilisi will increase from 0.1 GEL to 0.22 GEL for the population where water meters are installed. Taking into account the high unemployment and poverty level of the country,¹⁰ doubling the water tariff without any mitigation measures can cause serious problems of affordability and access to safe drinking water. In addition it is unclear what measures the company can take in cases of non-payment.

Conclusions

⁹ Pre-feasibility study for the EBRD project in Tbilisi

¹⁰ More than 50 percent of the population lives below the poverty line.

In order to ensure access to sustainable and safe drinking water for the population and thus achieve Millenium Development Goal 711, the EBRD should not finance any water projects in Georgia until the following measures are undertaken:

- The water tariffs set by the president's decree should be abolished
- Public hearings and consultations must be held during the setting of the water tariff methodology
- Multiplex Solutions or any other water utilities operating companies must provide a development plan and information about the necessary investments in the sector
- The government should undertake a commitment to subsidize low income households in cases where water tariffs appear unaffordable
- Public hearings and consultations must be held on the different components of all water projects (existing and future) with different NGOs, vulnerable groups (internally displaced people, veterans, school teachers etc), political parties, trade unions etc.
- Collective metering should be abolished in all water projects in Georgia
- A public supervisory mechanism must be created, which is able to participate in key decision making processes including project design, water tariff setting, investment obligations etc.

For more information

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