



Project  
Complaint  
Mechanism

**COMPLAINT: Shuakhevi HPP**

**REQUEST NUMBER: 2018/03**

**ELIGIBILITY ASSESSMENT REPORT – May 2018**

The Project Complaint Mechanism (PCM) is the accountability mechanism of the EBRD. PCM provides an opportunity for an independent review of Complaints from one or more individual(s) or organisation(s) concerning an EBRD Project, which allegedly has caused, or is likely to cause harm. PCM may address Complaints through two functions: Compliance Review, which seeks to determine whether or not the EBRD has complied with its Environmental and Social Policy and/or the Project-specific provisions of the Public Information Policy; and Problem-solving, which has the objective of restoring a dialogue between the Complainant and the Client to resolve the issue(s) underlying a Complaint without attributing blame or fault. Affected Parties can request one or both of these functions.

For more information about PCM, contact us or visit [www.ebrd.com](http://www.ebrd.com).

### Contact information

Inquiries should be addressed to:

The Project Complaint Mechanism (PCM)  
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<http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html>

### How to submit a Complaint to the PCM

Complaints about the environmental and social performance of the EBRD can be submitted by email, telephone or in writing at the above address, or via the online form at:

<http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/submit-a-complaint.html>

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*Unless otherwise indicated capitalised terms used in this report are those as set forth in the PCM Rules of Procedure.*

## EXECUTIVE SUMMARY

The Project Complaint Mechanism (PCM) received a [Complaint](#) from community members (Complainants) from Rabati settlement of Makhalakidze village, Shuakhevi Municipality in Georgia. Complainants raised concerns related to risks of landslides, impact on drinking and irrigation waters, impact on the river basin and on the micro-climate in the village connected with the [EBRD's Shuakhevi Hydro Power Plant in Georgia](#) (the Project). The Complainants have requested in their [Complaint](#) letter that a Problem-solving Initiative (PSI) and a Compliance Review (CR) to be undertaken by the PCM. Subsequent to the written Complaint, during PCM's meetings with the Complainants, they indicated a strong preference for PSI, and accordingly, that is the focus of the PCM under this Eligibility Assessment Report.

The Eligibility Assessors have determined that the [Complaint](#) is eligible for a PSI in accordance with the [PCM Rules of Procedure](#) (PCM RP), specifically paragraphs 24-26 and 28-29. The [Complaint](#):

- has been filed within prescribed timeframes;
- describes the PCM functions requested;
- describes the outcomes sought;
- provides adequate information relating to communications with the Bank and Client;
- raises issues that are appropriate for a PSI and the Eligibility Assessors consider that a PSI is likely to have a positive effect;
- is not disqualified under any criteria set forth in paragraph 28 of the PCM RP.

**The PCM Eligibility Assessors find that the [Complaint](#) satisfies the criteria for a Problem-solving Initiative.**

## I. BACKGROUND

1. On 14 February 2018 the PCM received a [Complaint](#) connected with the [EBRD's Shuakhevi Hydro Power Plant in Georgia](#).<sup>1</sup> The [Complaint](#) was submitted by community members representing 22 households in the Rabati settlement of Makhalakidze village, Shuakhevi Municipality of Georgia alleging impacts by the EBRD Project on the environment and social conditions in the community. The [Complaint](#) requested that a Problem-solving Initiative and a Compliance Review be undertaken by the PCM.
2. After having decided that the requirement to make good faith efforts to resolve the issues with the Bank and/or Client has been met, the PCM Officer registered the [Complaint](#) on 15 March 2018 in accordance with paragraphs 11-13 of the [PCM Rules of Procedure \(PCM RP\)](#). The Complaint was subsequently posted on the [PCM Register](#) in both [English](#) and [Georgian](#) languages pursuant to paragraph 20 of the PCM RP.
3. On 29 March 2018 Mr Constantin-Adi Gavrila was appointed as *ad hoc* PCM Expert to conduct this Eligibility Assessment jointly with the PCM Officer, in accordance with paragraph 22 of the PCM RP.
4. PCM understands that similar Complaints have been submitted by the same community members to the Asian Development Bank's Accountability Mechanism and to the of the International Finance Corporation. PCM is in continuous communication with representatives of these two other Independent Accountability Mechanisms (IAMs) to seek means to avoid duplication of efforts and/or disturbance to common parties, in line with paragraph 23 of the [PCM Rules of Procedure](#).
5. The EBRD [Shuakhevi HPP](#) Project involves a senior loan to Adjaristsqali Georgia LLC (the Client, or the Company) of up to USD 86.5 million (EUR 63.7 million) for the financing of the development, construction and operation of Shuakhevi HPP, a hydroelectric power plant to be located on the Adjaristsqali river in south-western Georgia (the "Project"). Shuakhevi HPP will have an installed capacity of 185 MW with expected electricity output of 452 GWh. The plant is designed as a run-of-the-river plant with capacity for diurnal storage in two reservoirs, allowing [Shuakhevi HPP](#) to store water for up to 12 hours and sell electricity at peak demand times.
6. The Project's transition impact stems from three factors: (i) More widespread private ownership because of the market entry of a new private competitor on the electricity generation market in Georgia; (ii) Demonstration of new financing methods as the Project will be the first power Project in Georgia to rely on limited recourse financing; and (iii) Setting standards for corporate governance and business conduct from the Project's potential for setting improved standards for HPP implementation in Georgia through the application of international best practices. This Project was approved by the EBRD Board of Directors on 30 Apr 2014, as a category A Project under the [2008 Environmental and Social Policy](#).<sup>2</sup>

## II. STEPS TAKEN IN THE ELIGIBILITY ASSESSMENT

7. The Eligibility Assessors have undertaken a general examination of the [Complaint](#), and documents and information provided by the Complainants, EBRD Management and the Client, to determine if the eligibility criteria set out in the PCM RP are satisfied.

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<sup>1</sup> Complaint 2018/03, available at <http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/pcm-register.html> and annexed to this report.

<sup>2</sup> Project Summary Document for Shuakhevi HPP, available at <http://www.ebrd.com/work-with-us/projects/psd/shuakhevi-hpp.html>.

8. Initial meetings were held with Complainants, the Client and Bank staff by telephone. In-country consultations were also undertaken by the PCM Expert and a member of PCM staff during 18-22 April 2018.
9. Separate meetings were held with the Complainants and the Client. During these meetings, the Complainants and the Client confirmed their interest for the PCM to provide a forum for dialogue to discuss the issues underlining the [Complaint](#).

### III. SUMMARY OF THE RELEVANT PARTIES' VIEWS

#### 1. Complainants

10. The Complainants raised health and safety issues related to risks of landslides, impacts on the water sources and the environment in relation with the [Shuakhevi HPP](#). Complainants expressed their concerns to the PCM in writing, during a video call held on 6 April 2018 and during the two community meetings with the PCM team in the Rabati settlement of Makhalakidze village, Georgia on 19 and 21 April 2018. In summary, the Complainants have asserted that:

- Construction works under the Project were implemented by Adjaristskali Georgia LLC deploying the drilling and explosion methods to divert the Adjaristskali River without considering harm caused to the environment and social conditions of community members.
- Complainants raised safety issues with the Company at numerous occasions; though Company officials assuring them that the Project impact on their livelihoods would be insignificant.
- The Project had an impact on the drinking and irrigation waters, impact on the river basin, caused changes into the micro-climate of the village, the reduction of water in the Adjaristskali river bed would have impacted crops due to the lack of irrigation water.
- In 2014 community members, the Company and the Government of Adjara Autonomous Republic have signed a Memorandum of Understanding (MOU), according to which the Company and the Government of Adjara committed to compensate community members for the Project damages, if materialized.
- As a result of the current geologic condition in the Makhalakidze village, the Government of the Autonomous Republic of Adjara has offered community members the amount of 25,000 GEL for each household in the Makhalakidze village. The 22 households (Complainants) in the Rabati settlement (which is part of the Makhalakidze village) refused the compensation offered considering it insufficient and not reflecting the commitment under the MoU signed in 2014.
- They raised these issues directly with the Company, with Government officials and with the EBRD but those attempts were unsuccessful.<sup>3</sup>

11. Two meetings in Rabati settlement of Makhalakidze village with the directly-impacted households were held to:

- Understand the Complainants general experience with Adjaristskali Georgia LLC activities, including positive impacts as well as pending concerns;
- Explore, in general terms, the underlying needs of the Complainants;

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<sup>3</sup> Complaint 2018/03, available at <http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/pcm-register.html> and annexed to this report.

- Clarify what the PCM Problem-solving function can and cannot achieve in order to manage expectations;
- Survey Complainants views about whether a PSI might be helpful (or not), and assess interest in pursuing a constructive dialogue;
- To circle back and share with the community members, the Company's preferred PCM function; and
- Discuss Complainants' views generally on terms to be included in any Framework Agreement for a constructive dialogue process;

12. These were the main outcomes of the in-country meetings with Complainants:

- Complainants requested that the assets held by community members of Rabati settlement, Makhalakidze village are inventoried and respective compensation packages be defined on an individual basis – in full compliance with the requirements of the funding institutions.
- Given all discussions, the community members expressed their immediate concern being a potential calamity caused by potential landslides and shared their hopes that the Company would agree to engage with them in a Problem-solving Initiative lead by the PCM and potentially involving the other two Accountability Mechanisms, to the extent possible.
- During the in-country meetings with the PCM team, Complainants stated that their immediate priority is the Problem-solving Initiative and that the Compliance Review function could be considered at a later stage pending the outcomes of the Problem-solving Initiative.
- Both the Complainants and the Company agreed that PCM could share the information provided with the other two IAMs involved in the assessment of this Complaint.<sup>4</sup>

## 2. Bank Management

13. In a written response to the [Complaint](#), EBRD Management indicated support for a Problem-solving Initiative undertaken by the PCM. The Bank clarified that the Shuakhevi HPP Lender Group (which includes EBRD), addressed in the Complaint letter, has carefully monitored the [Shuakhevi HPP](#) Project with the support of an independent Lenders E&S Consultant (LESC) post-financing approval and throughout construction.
14. EBRD stated that many of the issues raised by the community members are ongoing concerns under discussion among the Company, the community and other relevant stakeholders. The Lenders' conclusion was that the Company has been taking adequate steps to address such concerns and that the Project has been constructed in line with the Lenders Environmental and Social requirements, the Project Environmental and Social Impact Assessment and resulting Environmental and Social Action Plan, and all related E&S management systems.
15. In response to the Complainants assertion that they had addressed a letter of complaint in August 2017 to the Lender group and did not receive a response, the Bank Management highlighted that at least one of the Lender Group members responded to that communication, and also indicated that the Lender Group met the Complainants in October 2017 to discuss the issues raised in their letter.

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<sup>4</sup> In country meetings with the community members on 19 and 21 April 2018

16. EBRD Management indicated that there may be some miscommunication, welcomed any opportunities to resolve the situation through mediation and/or problem-solving and showed willingness to receive potential suggestions or recommendations on how Project implementation should continue in the future.
17. EBRD committed to provide more details regarding the specifics of the letter in due course; however, the Bank indicated that the best form of solution of the present [Complaint](#) would be a facilitated dialogue process between the Company and the community members directly.<sup>5</sup>

### 3. The Client

18. The Client is Adjaristsqali Georgia LLC a special purpose vehicle established in Georgia for the sole purpose of constructing a cascade of three hydroelectric power plants on the Adjaristsqali river in south-western Georgia, the first of which will be Shuakhevi HPP. Adjaristsqali Georgia LLC is owned by Clean Energy Invest AS (40%), Tata Power (40%), and IFC Infraventures (20%).<sup>6</sup>
19. PCM Officer informed the Client about the registration of the [Complaint](#) and invited them to provide a written response.
20. PCM had a video call with representatives of the Adjaristsqali Georgia LLC on 13 April 2018 and met with Company staff at their camp in Shuakhevi, Georgia on 20 April 2018. The PCM team undertook a Project site visit to the Shuakhevi Power House, Didachara Dam, and had a follow up meeting with the Company on 21 April 2018 in Batumi, Georgia.
21. During the PCM's meetings with the Company, they presented the Project activities and its Area of Influence in the Shuakhevi municipality area. The Company also explained their continuous efforts to engage with community members and corporate social responsibility activities undertaken in collaboration with the local government in 18 villages located in Shuakhevi municipality.
22. Although the Company did not indicate any connection between the Company activities and the issues raised by the community members, the Company indicated their willingness to participate in Problem-solving Initiative with the Complainants under the auspices of the PCM, and potentially with the involvement of the other two Accountability Mechanisms, to the extent possible.<sup>7</sup>

## IV. DETERMINATION OF ELIGIBILITY FOR A PROBLEM-SOLVING INITIATIVE

23. The Eligibility Assessors have examined the [Complaint](#) to determine whether the relevant eligibility criteria are met under paragraphs 24-26 and 28 of the PCM RP. They have considered the response of the Bank Management as well as the expressed views of the Client in accordance with paragraph 29 of the PCM RP.
24. PCM has also sought additional information and documentation from the Complainants, Bank staff (in particular, the Banking and Environment and Sustainability Departments) and the Client, and conducted in country meetings in Georgia during 18-22 April 2018.

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<sup>5</sup> Bank Management Response dated 2 May 2018 available in annex to this report.

<sup>6</sup> Project Summary Document for Shuakhevi HPP, available at <http://www.ebrd.com/work-with-us/projects/psd/shuakhevi-hpp.html>.

<sup>7</sup> In country meetings with the Client on 20 and 21 April 2018.

25. Pursuant to paragraph 24 of the PCM RP, the Eligibility Assessors do not judge the merits of the allegations in the [Complaint](#) and do not make a judgement regarding the truthfulness or correctness of the [Complaint](#) in making their determination on eligibility.

26. The Eligibility Assessors have determined that the eligibility criteria for a Problem-solving Initiative as set out in paragraph 24(a) of the PCM RP are satisfied:

- The Complainants are individuals located in the Impacted Area of the Project and have an economic interest in the Project Impacted Area;<sup>8</sup> and
- The [Complaint](#) raises issues covered by the EBRD's 2008 Environmental and Social Policy, namely issues described in the Performance Requirement 1 – “Environmental and Social Appraisal and Management”, the Performance Requirement 4 – “Community Health, Safety and Security” and the Performance Requirement 6 – “Biodiversity Conservation and Sustainable Management of Living Natural Resources”.

27. The Eligibility Assessors have also determined that the criteria outlined in paragraph 25 of the PCM RP have been met:

- The Complainants indicated in their [Complaint](#)<sup>9</sup> a desire for PCM to undertake a Problem-solving Initiative and a Compliance Review.

- During PCM's in country meetings with community members, they indicated the following:

*Our immediate concern is this calamity – we want to make sure that the Company will agree to engage in Problem-solving. Compliance Review can be considered at a later stage pending the outcomes of the Problem-solving Initiative.<sup>10</sup>*

- In regards to the outcomes sought pursuant to a PCM process, community members indicated the following:

*Hereby, we wish to note that the Company refuses to assume responsibility and to inquire into the real reasons of the calamity. Hence, we request the Banks to study to what extent does the Shuakhevi HPP Project, its Environmental and Social Impact Report and actual works comply with the requirements of your Environmental and Social Policies. We believe that a good number of issues (geology, social, etc.) were ignored in the project, thus leading to the current damages. Respectively, we request the project-born problems to be addressed on the one hand and project compliance analysis with your Environmental and Social Standards on the other hand.<sup>11</sup>*

- Complainants submitted copies of their correspondence with the Bank and indicated that they did not receive a response to their letter addressed to the Bank in August 2017. Complainants have also indicated that they tried to raise these issues directly with the Company before reaching out to the PCM. In addition, Complainants submitted relevant supporting documents related to the [Complaint](#).<sup>12</sup>

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<sup>8</sup> In accordance with paragraph 1 of the PCM RPs: “One or more individual(s) located in an Impacted Area, or who has or have an economic interest, including social and cultural interests, in an Impacted Area, may submit a Complaint seeking a Problem-solving Initiative.”

<sup>9</sup> Complaint 2018/03, available at <http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/pcm-register.html> and annexed to this report.

<sup>10</sup> In country meetings with Complainants on 19 and 21 April 2018.

<sup>11</sup> Complaint 2018/03, available at <http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/pcm-register.html> and annexed to this report.

<sup>12</sup> *Ibid*

28. Pursuant to paragraph 26 of the PCM RP, the Eligibility Assessors must also consider whether a PSI may assist in resolving the dispute, or is likely to have a positive result. The Eligibility Assessors consider that a PSI may assist in resolving the issues raised by the residents of Rabati settlement in Makhalakidze village and is likely to have a positive result. Several factors inform this conclusion:

- The Relevant Parties have sufficient incentives to reach an agreement;
- The Complainants, residents living in the Project Impacted Area and the Client, are willing to participate in meetings or other forums related to a Problem-solving Initiative;
- The Relevant Parties share some common interests such as community safety concerns and constructive dialogue;
- PCM is aware that the Complainants raised similar issues with the ADB's Accountability Mechanism and the IFC's CAO. PCM is in regular communication with these other Independent Accountability Mechanisms and is exploring, with the other mechanisms, approaches for coordination of efforts, sharing information and avoiding duplication during the Complaint processing. During the preparation phase of the Problem-solving Initiative, PCM will seek guidance from community members and the Company on their preference for IAM-coordinated efforts on the processing of the [Complaint](#).
- Further, the potential for a constructive dialogue to resolve some of the outstanding concerns in an expedited timeline is of paramount importance in this situation given the imminent safety concerns raised by community members due to risks of landslides.

29. Pursuant to paragraph 28 of the PCM RP, the Eligibility Assessors have found that the [Complaint](#) was not filed fraudulently or for a frivolous purpose, and that its primary purpose is not to seek competitive advantage through the disclosure of information or through delaying the Project. Further, the [Complaint](#) has not been yet addressed by a mechanism of another co-financing institution, and it does not relate to the obligations of a third party.

## V. CONCLUSION

30. On the basis of the information set out above, the Eligibility Assessors have found that the [Complaint](#) satisfies the eligibility criteria for a Problem-solving Initiative.

## TERMS OF REFERENCE FOR A PROBLEM-SOLVING INITIATIVE

### Complaint on Shuakhevi HPP Request: 2018/03

#### Application

1. These Terms of Reference apply to any activity or action undertaken as part of the Problem-solving Initiative, which includes the promotion of a facilitated dialogue among the Parties to discuss the issues raised in the [Complaint](#), without attributing blame or fault.<sup>13</sup>
2. Activities carried out as part of the PSI and subject to these Terms of Reference are subject to modifications which the Problem-solving Expert and the PCM Officer may, at any time, expressly agree upon, except modification that may prejudice the interests of any Relevant Party or is inconsistent with accepted dispute-resolution practice.<sup>14</sup>

#### Problem-solving Expert

3. The Problem-solving Expert shall conduct the PSI in a neutral, independent and impartial manner and will be guided by principles of objectivity and fairness giving consideration to the needs, concerns and interests of the Relevant Parties.

#### Time Frame

4. The PSI will commence as soon as practicable following the President's decision to accept the Eligibility Assessors' recommendation to undertake a PSI.
5. Every effort shall be made to ensure that the PSI is conducted as expeditiously as circumstances permit. It is intended that the first stage of the process, including capacity-building and facilitated discussions among the Relevant Parties, will be completed within 45 calendar days. It is understood that the time for subsequent stages will be guided by the requirements of the process. The PSI will be considered completed when the Relevant Parties reach an agreement, if one of the Parties no longer wishes to continue in the process, or when, in the opinion of the Problem-solving Expert, no further progress toward resolution is possible, as per paragraph 37 of the PCM RP.

#### Procedure: Conduct of the Problem-solving Initiative

6. The Problem-solving Expert may conduct the PSI in such a manner as he/she considers appropriate, according to the work plan that has been discussed and agreed to by the Parties, and taking into account the PCM RP, the concerns expressed in the [Complaint](#), and the general circumstances of the [Complaint](#). The Expert will employ such methods as he/she

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<sup>13</sup> The problem-solving function of the PCM is described in the Rules of Procedure as having "the objective of restoring a dialogue between the Complainant and the Client to resolve the issue(s) underlying a Complaint without attributing blame or fault."

<sup>14</sup> European Code of Conduct for Mediators:  
[http://ec.europa.eu/civiljustice/adr/adr\\_ec\\_code\\_conduct\\_en.pdf](http://ec.europa.eu/civiljustice/adr/adr_ec_code_conduct_en.pdf).

deems necessary including facilitated information-exchange, mediated bilateral and joint discussions and conciliation.

7. During the course of the PSI the Problem-solving Expert may:
  - a. Organize the dialogue process;
  - b. Develop an agreed work plan and framework agreement for the process, in consultation with the Complainants and the Client;
  - c. Finalize objectives for the dialogue process and agendas with input from all Parties;
  - d. Seek to ensure a productive working environment where Parties can explore creative options;
  - e. Facilitate solutions as described by the different stakeholders and initiate and guide the PSI process;
  - f. Document and publish process results and agreements, as appropriate and in consultation with the Parties;
  - g. Treat all Parties with respect and assure a fair and balanced process where Parties can make informed choices;
  - h. Coordinate with independent experts and/or Independent Accountability Mechanisms, as appropriate.

Note: It is not the role of the Problem-solving Expert to decide whether Parties' actions, opinions or perceptions are right or wrong or to arbitrate in favour of one of the Parties.

#### **Problem-solving Initiative Completion Report**

8. In accordance with paragraph 37 of the PCM RP, the Problem-solving Expert shall prepare a Completion Report. The Report will describe the issues raised in the [Complaint](#); the methods used during the PSI; and the results of the PSI including any issues that remain outstanding. The Report will also identify the need for any follow-up monitoring and reporting by the PCM Officer.
9. Prior to publicly releasing the Problem-solving Completion Report, the PCM Officer will verify with all Relevant Parties that they agree to the content as well as public release of the Report and that there are no confidentiality concerns raised.
10. The Completion Report shall be distributed to the Relevant Parties, the President and the Board of Directors for information, and publicly released in accordance with paragraph 38 of the PCM RP.
11. In accordance with paragraph 39 of the PCM RP, the PCM Officer will monitor the implementation of any agreements reached during the PSI. The PCM Officer will submit draft PSI Monitoring Reports to the Relevant Parties who will be given reasonable opportunity to comment on such Reports. If the PCM Officer receives comments from the Relevant Parties, the PCM Officer will have five (5) Business Days from the day the last comments are received to finalise the Report and will send the final Report to the President and to the Board. Within five (5) Business Days thereafter, the PSI Monitoring Report will be publicly released and posted on the PCM website. The PCM Officer will issue PSI Monitoring Reports at least biannually or until the PCM Officer determines that monitoring is no longer needed.

## **Exclusion of Liability**

12. Without prejudice to the privileges and immunities enjoyed by PCM Experts, the Problem-solving Expert shall not be liable to any party for any act or omission in connection with any PSI activities undertaken pursuant to these Terms of Reference.

## ANNEX 1: COMPLAINT

**To:** Project-Related Grievances and Complaints Body  
European Bank for Reconstruction and Development

**From:** Rabati settlement of Makhalakidze village  
Shuakhevi Municipality of Georgia

We wish to file an official complaint relating to Shuakhevi Hydro Power Plant (HPP), which has been financed with Financial Support Facility of the European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB) and International Finance Corporation (IFC). According to the initial plan, project should have been financed if and when requirements were met under the Environmental and Social Policies of the referred International Financial Institutions (IFIs).

In August 2017 we communicated with managements of the IFIs in writing in relation with Shuakhevi HPP Project (covering Zemo Adjara, Khulo and Shuakhevi Municipalities) to seek their response to the threats born by the project that put the existence of our village under a question mark.

Unfortunately, our letter had no follow-up from the managements of either the Company, or the banks, as a result of which we decided to file the present complaint.

As we are aware, 187 megawatt capacity of Shuakhevi HPP is funded by your Banks. Hence, project implementation should have followed if complying with your Environmental and Social Standards.

Shuakhevi HPP Project implied the construction of two cascades (39 meters high in Didachara and 22 meters high in Skhalta), along with several derivative tunnels (three tunnels: 5.8; 9.1 and 17.8 kilometers) at various inflows of Adjaristskali River, including the area in the vicinity of our village. Construction works were to be implemented by deploying the drilling and explosion methods. This issue has been raised at numerous occasions and different meetings, though Company officials were assuring us that hits would be so insignificant that we would not even feel them. Moreover, the Company has signed a Memorandum of Understanding (MOU) with our village in 2014, according to which it committed to compensate for the damages, if materialized.

Construction works were performed by Adjaristskali Georgia LLC without even considering such problematic issues as safety of local population, harm caused to local nature and social conditions, intensified landslides (stone and rock falls), impact on the drinking and irrigation waters, impact on the river basin, changes in the micro-climate of the village, reduction of water in the river bed to only 10%. Company later completely ignored the emerged problems and refuses to deliver its commitment.

Plenty of meetings have been held on this topic with government officials, Company representatives and Ministry of Energy of Georgia. They were all in vain. No response followed on the letter sent to the managements of the Banks in August.

Construction of the project has been completed and it left no drinking water in the village; rock falls have been increased, thus threatening the life of local population; landslides have become intensified; trout and other species of fish protected under the IUCN Red Data List of Threatened

Species have disappeared from the local river; crops have dropped in volumes; it has become practically impossible to live and exist in the village.

Within the past two years geologists from various public institutions have studied the issue and produced their expertise opinion on the alarming situation in the village, which were caused by the drills and explosions performed in the village in particular and intensified geologic processes in general.

As a result of the current geologic condition, Government of the Autonomous Republic of Adjara has offered us 25000 (twenty-five thousand) GEL instead of making the Company assess the losses and pay a compensation in line with international standards, as elaborated in Clause 2.7 of the MOU concluded with our village in 2014.

It should be noted that construction works were launched without detailed geologic studies and no risk mitigation measures were ever defined. We believe this to be a grave violation of the Environmental and Social Policies of your Banks and the main reason for the current alarming condition in our village.

Considering all the aforesaid, we demand the assets held by the residents of Rabati settlement to be inventoried and respective compensation packages to be defined on an individual basis – in full compliance with the requirements of the IFC.

Hereby, we wish to note that the Company refuses to assume responsibility and to inquire into the real reasons of the calamity. Hence, we request the Banks to study to what extent does the Shuakhevi HPP Project, its Environmental and Social Impact Report and actual works comply with the requirements of your Environmental and Social Policies. We believe that a good number of issues (geology, social, etc.) were ignored in the project, thus leading to the current damages.

Respectively, we request the project-born problems to be addressed on the one hand and project compliance analysis with your Environmental and Social Standards on the other hand.

Most Respectfully Yours,

Signatures

List of full names, personal identification numbers, phone numbers, e-mails and signatures.

09-02-2018

## **ANNEX 2:**

### **BANK MANAGEMENT RESPONSE TO THE COMPLAINT**

EBRD management will provide a detailed response to each and every point raised in the letter, however, in the interests in moving quickly to explore the possibility of mediation / problem solving and coordinating with other Lenders, EBRD management can provide the following information.

The Shuakhevi HPP Lender Group (which includes EBRD) addressed in the complaint letter has carefully monitored the Shuakhevi HPP Project with the support of an independent Lenders E&S Consultant (LESC) post-financing approval and throughout construction. Monitoring by the Lender Group has confirmed that the Company has been actively engaging with local populations on issues raised in the letter since project inception and the Lender group has assessed the Company's response to issues included in the letter over the last few years.

Many of the issues raised – public safety, landslide risk, building / asset integrity, impacts to water quality / quantity, biodiversity conservation, asset inventories, project area of influence / project affected people etc. – are ongoing concerns and have been discussed in detail with the Company, the EPC contractor, the communities and other project stakeholders and the Lenders conclusion has been that the Company has been taking adequate steps to address all such concerns and that the project has been constructed in line with the Lenders E&S requirements, the Project ESIA and resulting E&S Action Plan, and all related E&S management systems.

With specific regard to the letter, the complaint states that the Lender group did not respond to letters received from the communities in August 2017 concerning the same issues which doesn't correspond with our understanding of the situation as members of the Lender Group and the LESOC met the complainants in October 2017 to discuss these topics and written responses by at least one member of the Lender group have been provided on the same issues.

EBRD management acknowledges that there is some miscommunication here and EBRD therefore would, of course, welcome any opportunities to resolve the situation through mediation and / or problem solving and EBRD would be willing to receive any suggestions or recommendations on how project implementation should continue or be altered in the future.

More details will be provided regarding the specifics of the letter in due course, however, it is EBRD's view that the best form of solution would be between the Company and the community directly and EBRD therefore supports all efforts at problem solving wherever possible.