

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 27 October 2021¹

GEORGIA

GRCF2 W2 - TBILISI BUS PHASE III

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

TABLE OF CONTENTS

	Page
TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS.....	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET.....	6
1. STRATEGIC FIT AND KEY ISSUES.....	8
1.1 STRATEGIC CONTEXT.....	8
1.2 TRANSITION IMPACT	10
1.3 ADDITIONALITY	11
1.4 SOUND BANKING - KEY RISKS	12
2. MEASURING / MONITORING SUCCESS.....	12
3. KEY PARTIES	15
3.1 BORROWER / CLIENT.....	15
3.2 THE CITY AND THE COMPANY	15
4. MARKET CONTEXT	15
5. FINANCIAL / ECONOMIC ANALYSIS	16
5.1 FINANCIAL PROJECTIONS	16
5.2 ECONOMIC ANALYSIS.....	16
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	16
6. OTHER KEY CONSIDERATIONS.....	17
6.1 ENVIRONMENT.....	17
6.2 INTEGRITY	18
ANNEXES TO OPERATION REPORT	19
ANNEX 1: PROJECT IMPLEMENTATION AND PROCUREMENT PLAN.	20
ANNEX 2: IMPLEMENTATION PROGRESS OF GrCF / GrCF2	21
ANNEX 3: PUBLIC DEBT SUSTAINABILITY OF GEORGIA	22
ANNEX 4: HISTORICAL FINANCIAL ANALYSIS.....	23
ANNEX 5: SSF TC FICHE.....	24

ABBREVIATIONS / CURRENCY CONVERSIONS

CNG	Compressed Natural Gas
CO2	Carbon Dioxide
D&B	Design and Build
EBRD	European Bank for Reconstruction and Development
EFF	Extended Fund Facility
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESAP	Environmental and Social Action Plans
ESDD	Environmental and Social Due Diligence
EUR	Euro
EV	Electric vehicle
E5P	Eastern Europe Energy Efficiency and Environmental Partnership
GCAP	Green Cities Action Plan
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEL	Georgian Lari
GET	Green Economy Transition
GHG	Greenhouse Gas
GrCF	EBRD Green Cities
GrCF2	EBRD Green Cities 2
IFI	International Financial Institution
IMF	International Monetary Fund
NDC	Nationally Determined Contributions
PIP	Priority Investment Plan
PIU	Project Implementation Unit
PM	Particle Matter
PP&R	Procurement Policies and Rules
PSC	Public Service Contract
SDG	Sustainable Development Goals
SSF	EBRD Shareholder Special Fund
STC	Standard Terms and Conditions
SUMP	Sustainable Urban Mobility Plan
TC	Technical Co-operation
TUDA	Transport and Urban Development Agency
VAT	Value Added Tax

CURRENCY CONVERSION

EUR / GEL²	2017	2018	2019	2020
Annual average	2.8322	2.9913	3.1553	3.5519

² Annual average of National Bank of Georgia's official daily exchange rates.

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Georgia (the "Borrower") are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower in the amount of up to EUR 83 million (structured in two tranches). The loan will be on-lent to the City of Tbilisi for the benefit of Tbilisi Transport Company.

The operation will complete the modernisation of the bus operations in Tbilisi through the purchase of a new bus fleet of approximately 200 modern 18-meter low-floor articulated compressed natural gas buses and the construction of a new depot for these buses (the "Project"). The Project is a follow-on investment under the Tbilisi Green City Action Plan, as bus fleet renewal (with low/zero emission buses) was identified as the City's priority. The Project's expected transition impact follows that identified in Green Cities Framework 2, and is to derive from the Green and Well-Governed qualities by addressing the City's priority needs and reducing the impacts of the City's transport sector by encouraging a shift to public transport systems, as well as introduction of integrated tariffs, that will be affordable for disadvantaged groups, including women, people with disabilities, young people, the elderly and other minorities. The Project is 100 per cent GET.

Technical Cooperation ("TC") support for the preparation of the Project was financed by the EBRD Shareholder Special Fund (the "SSF") Work Plan 2019-2020. Post-signing TCs, including Project Implementation Support and Introduction of Integrated Tariffs and Update of the Public Service Contract are proposed to be funded by the SSF Work Plan 2021-2022, for which the Board approval is sought, while Support for Development of an Urban E-Mobility Roadmap for Tbilisi is proposed to be funded by the Green Climate Fund ("GCF").

The Project is implemented under advance procurement procedures, and thus retroactive financing in the amount of up to 20 per cent of the loan will be applied to eligible expenditures, as defined by the Operations Policy for Retroactive Financing.

I am satisfied that the operation is consistent with the Bank's Strategy for Georgia, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan and the SSF TC grant substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

Georgia - GrCF2 W2 - Tbilisi Bus Phase III - DTM 52565 Framework: Georgia - Green Cities 2 – Window II - DTM 50674	
Transaction / Board Decision	<p>Board approval³ is sought for a sovereign loan of up to EUR 83 million, in two tranches, in favour of Georgia to finance the acquisition of approximately 200 modern 18-meter low-floor articulated compressed natural gas buses (Tranche 1) and the construction of a new depot for these buses (Tranche 2). The proceeds of the sovereign loan are to be on-lent to the City of Tbilisi for the benefit of Tbilisi Transport Company. Tranche 1 will be committed at signing. The commitment of Tranche 2 will be subject to the achievement of conditions precedent and the approval to commit this tranche will be delegated to Management.</p> <p>The proposed investment will address Tbilisi’s priority needs as identified by the Green City Action Plan approved by the City in September 2017. The Project is a follow-on investment proposed under Green Cities Framework 2 – Window II. Board approval is also sought for a TC grant [REDACTED] from the SSF Work Plan 2021-2022 in support of the Project’s post-signing TC assignments.</p>
Client	Georgia is the Borrower.
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> • <i>Green</i> – The Project will improve the reliability, safety and efficiency of public transport, encouraging a modal shift from private to public transport, while CNG technology will reduce greenhouse gas emissions and transport related air pollution. • <i>Well-governed</i> – The Project will support introduction of integrated tariffs. The Project will also support Tbilisi in the development of an urban e-mobility roadmap. <p><u>Additionality:</u></p> <ul style="list-style-type: none"> • The long-term financing necessary to structure the Project is not available in the country. • The Bank’s well-established relationships with the authorities will enable it to extend policy dialogue [REDACTED] • The Bank’s experience, innovation, knowledge and capabilities are material to the timely realisation of the Project’s objectives. <p><u>Sound banking:</u> The transaction is a sovereign loan. The Bank’s Standard Terms and Conditions apply. [REDACTED]</p>
Key Risks	<ul style="list-style-type: none"> • Georgia public debt sustainability is expected to be preserved in the medium term despite the significant increase in 2020 related to the Covid-19 crisis. The country’s sovereign credit rating stands at BB negative⁴ from Fitch, BB negative from S&P and Ba2 stable from Moody’s. • The City’s budget has been growing in recent years, with the exception of 2020 due to Covid-19 crisis and lower tax revenues (the main source of City’s income). • The City and the Company have successfully implemented a number of IFI-funded projects, including projects financed by the EBRD.
Strategic Fit Summary	The Project is consistent with the Bank’s Country Strategy for Georgia, the Bank’s Municipal and Environmental Infrastructure Sector Strategy, Green Economy Transition Approach 2021-2025, the Strategy for the Promotion of Gender Equality, Georgia’s updated Nationally Determined Contributions under the Paris Agreement, EU’s Covenant of Mayors initiative, the EU Association Agreement signed by Georgia in 2014 and Tbilisi’s GCAP.

³ Article 27 of the AEB provides the basis for this decision.

⁴ This information was accurate as at the date of preparation of the document, but has since changed (and is subject to change further)

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign loan of up to EUR 83 million to Georgia, to be on-lent to the City of Tbilisi (“Tbilisi” or the “City”) for the benefit of Tbilisi Transport Company Ltd. (the “Company” or “TTC”), a municipally owned company which operates buses, the metro system and cable cars in Tbilisi.</p> <p>The loan will be divided into two tranches:</p> <ul style="list-style-type: none"> - Tranche 1 in the amount of up to EUR 70 million for the acquisition of ca. 200 modern 18-meter low-floor articulated CNG buses [REDACTED]; and - Tranche 2 in the amount of up to EUR 13 million for the construction of a new depot for these buses. [REDACTED].
Existing Exposure	<p>Sovereign exposure: The total amount of sovereign portfolio stands at EUR 442.6 million [REDACTED]; (DTM numbers: 4304; 36538; 37560; 37801; 39579; 40019; 45181; 45956; 47166; 47582; 48098; 48104; 48365; 49649; 50271; 50842; 51207; 51392; 51422; 51438; 52825).</p>
Maturity / Exit / Repayment	Fifteen-year maturity [REDACTED].
Potential AMI eligible financing	None
Use of Proceeds	<p>The proposed EBRD loan will finance the acquisition of a new bus fleet of 200 modern 18-metre low-floor CNG buses for the City. This is in addition to ca. 370 modern 12-metre low-floor CNG buses purchased with the support of the EBRD and the Eastern Europe Energy Efficiency and Environment Partnership (“E5P”) (DTM 47166, Tbilisi Bus Project and DTM 51207, Tbilisi Bus Extension).</p> <p>Retroactive financing. Due to the application of advance procurement in line with the Bank’s PPR section III, the Borrower has requested the use of retroactive financing (20 per cent of loan amount for Tranche 1) to be applied to Project expenditures, which may be incurred prior to the signing of the loan agreement but after the date of the Concept Review approval, as required by the Operations Policy for Retroactive Financing.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower: Georgia represented by the Ministry of Finance. • Beneficiary: the Company, party to a Project Implementation Agreement. • Tbilisi City: party to a Project Support Agreement.
Conditions to subscription / disbursement	<p><i>Conditions to effectiveness:</i></p> <ul style="list-style-type: none"> • Ratification; • Legal opinions; • Project Implementation Agreement and Project Support Agreement signed. [REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan.
Other material agreements	<ul style="list-style-type: none"> • Loan Agreement between the Bank and the Borrower. • Project Implementation Agreement between the Bank and the Company. • Project Support Agreement between the Bank and the City. [REDACTED]
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC)</p> <p><i>Pre-Signing:</i></p> <ul style="list-style-type: none"> • TC 1: Technical Due Diligence and Technical Support for Procurement of the Project. The cost of the assignment is EUR 74,466, financed by the SSF. • TC 2: Pre-Signing Procurement Support for Tranche 1 of the Project. The cost of the assignment is EUR 34,880, financed by the SSF.

	<ul style="list-style-type: none"> • TC 3: Environmental and Social (“E&S) Due Diligence of the Project. The cost of the assignment is EUR 32,800, financed by the SSF. <p><i>Post-Signing:</i></p> <ul style="list-style-type: none"> • TC 4: Project Implementation Support for Tranche 2 [REDACTED]. The estimated cost of this assignment is up to EUR 450,000, proposed to be financed by the SSF. • TC 5: Introduction of Integrated Tariffs and Update of the Public Service Contract (“PSC”). [REDACTED]The estimated cost of this assignment is up to EUR 250,000, proposed to be financed by the SSF. • TC 6: Support for Development of an Urban E-Mobility Roadmap for Tbilisi [REDACTED] The estimated cost of this assignment is up to EUR 150,000, proposed to be financed by the GCF.[REDACTED] <p>B. Co-investment grants / Concessional Finance (Non-TC): None.</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The proposed investment will address Tbilisi's priority needs as identified by the Green City Action Plan ("GCAP") approved by the City in September 2017. The Project is a follow-on investment, proposed under the Green Cities 2 ("GrCF2") – Window II. Tbilisi's GCAP has identified a range of priority environmental challenges facing the City, as well as the investment and policy actions across multiple sectors, including transport, which are needed to address these challenges. The City is actively working on the implementation of more than 71 per cent of GCAP measures. The Project's objective is to improve the reliability, safety and efficiency of public transport, while the CNG technology will reduce polluting air emissions, making the Project compatible with the Green Economy Transition Approach 2021-2025 ("GET 2.1") and consistent with the ambitions of the GrCF2.

The GCAP indicated that air pollution in Tbilisi is a concern with data on PM2.5 and PM10 levels well above international benchmarks. It is assumed that ninety per cent of air pollution in the City comes from transport, with diesel-powered vehicles being a major contributor. The Project addresses Tbilisi's priority environmental challenges and helps improve the quality of transport in the City and air quality. Following the GCAP's identified need of improving the public transport provision through an expanded low-emission public transport system in the City, the EBRD has assisted Tbilisi in various initiatives in the public transport sector. This includes reforming its management of public transport by financing the bus fleet renewal, the rehabilitation of the metro system, including new metro cars and refurbishment of metro stations, rehabilitation of bus and metro depots and the optimisation of public transport network. In 2020, a Bus Route Restructuring study, developed with the Bank's support, recommended selection of 18-meter buses for certain bus routes to fully satisfy the City's growing demand and provide sufficient capacity under a new optimised network.

EBRD has been supporting Tbilisi since 2016 to realise its aspirations and improve the transport provision. EBRD supports the holistic improvement of the transport services through investments in depot improvements alongside fleet renewal. Investments are also supported by bus route restructuring studies, institutional development for TTC, and supporting the bus service reform through implementing PSC to introduce the new bus network. This Project is a core element of the future sustainable mobility system for the City, which will introduce new bus network and priority bus corridors, integrated public transport services and ticketing, and promote active modes. As such, EBRD continues to support Tbilisi's transition, with an affordable and adapted technology, offering considerable environmental benefits through reduced air pollution, achieved through reduction in car and minibus use and strengthening of the public transport system. This is done in coordination with other donors and in line with Tbilisi's Sustainable Urban Mobility Plan ("SUMP") which is currently in development, and which will inform sustainable planning for the future.

Moreover, the Project is in line with the City's vision for the transport sector as indicated in the Tbilisi Transport Policy (2018-2021), as improving the bus network and public transport uptake is an integral policy pillar. This includes reducing waiting times through the launch of the new bus network and improving the bus fleet through the bus fleet renewal process. According to the Mayor of Tbilisi, the goal of transport reform is to enable the citizens to move

quickly and comfortably in the city, highlighting the importance of public transport serving hundreds of thousands of people daily.⁵

With the proposed investment, the City will complete the bus fleet renewal by fully replacing outdated polluting buses with modern environmentally cleaner buses. The Project will:

- Support a continued modal shift away from private cars to public transport;
- Bring significant social benefits by facilitating easy access for passengers, and those with limited movement, including the elderly and the disabled;
- Improve the reliability, safety and efficiency of public transport;
- Reduce air pollution emissions from public transport, improving local air quality; and
- Reduce GHG through the integration of CNG technology.

CNG fuel is a comparatively low-emission fossil fuel technology for bus transportation and its introduction will make a significant impact on harmful toxic emissions affecting air quality, notably particle matter (“PM”), nitrogen oxides, sulphur dioxides and carbon monoxide. The choice of CNG as the most adapted technology for Tbilisi has been confirmed by an independent consultant in the due diligence study, based on a detailed review of total cost of ownership, in the context of local price base. Based on current market price, CNG buses (12m standard and 18m articulated buses) are estimated to be significantly more cost-effective on a total cost of ownership basis (over ten year period), compared with an electric bus of similar size and performance. For Tbilisi the use of CNG technology thus allows a larger low emission bus fleet at affordable tariff, attracting greater ridership and modal shift, as a bulwark against increasing car ownership in Georgia. It is moreover, to be noted that CNG technology is included under the EU clean vehicles directive (to apply from August 2021) for procurement of clean vehicle fleets (CNG and zero emission -electric, hydrogen)⁶.

E-mobility offers great potential for the city due to the very low grid factor of Georgia. To further promote the City’s drive for cleaner energy, the Bank will support a post-signing TC study to support the City prepare a roadmap for electric mobility integration and explore e-mobility opportunities in the City, including wider adoption of electric fleets and expanding of electric vehicle charging networks. The study will support the adoption of e-mobility through a thorough planning and a programmatic approach guided by pilots and lessons learnt. Critically, it shall also allow the City to give market indication of its preparedness to ensure a successful transition through implementing a framework of policy measures in the e-mobility space and conducting studies which will facilitate and strengthen private sector involvement and appetite. Given the complexities associated with the procurement and deployment of electric buses, this requires significant effort and proper planning that will ensure a strong interest from suppliers.

The Project is consistent with the Municipal and Environmental Infrastructure Sector Strategy, which states that one of the key strategic directions is *“driving the environmental, economic, and social sustainability of the sector through capacity building and improved corporate governance” ... “This will be targeted by the Bank through support for (i) GCAP planning, (ii) procurement and implementation, (iii) client capacity building, fostering of improved social and environmental practices, corporatisation, decentralisation, integrated stakeholder engagement, introduction of contractual clarity in the PSC (improving government effectiveness and accountability).”* Second, the Bank’s Country Strategy for Georgia notes that *“the Bank will engage in promoting energy efficiency and sustainability in the municipal sector.”*

⁵ <https://tbilisi.gov.ge/news/11621?lang=en>

⁶ https://ec.europa.eu/transport/themes/urban/clean-vehicles-directive_en

In wider terms, the Project is aligned with the requirements of the Covenant of Mayors, which Tbilisi joined in 2010, given the anticipated environmental gains from this investment, and the EU Association Agreement signed by Georgia in 2014. Moreover, this Project is consistent with Georgia’s updated Nationally Determined Contributions (“NDC”) under the Paris Agreement. In its updated NDC, Georgia is fully committed to an unconditional limiting target of 35 per cent below 1990 level of its domestic total greenhouse gas emissions by 2030. The updated NDC of Georgia sets 2030 Climate Change Strategy and 2020-2023 Action Plan for the determination of mitigation measures contributing achievement of unconditional and conditional commitments and mitigation targets. Specifically, this Project is consistent with the Objective 2.3 of Goal 2 (transport sector), which is to promote non-motorized means of mobility and public transport. Under this objective, Georgian NDC and Action Plan envisages an increase in public transport and bus fleet upgrade. This Project also contributes to a host of UN Sustainable Development Goals (“SDGs”), namely: SDG 3. Good Health and Well-being, SDG 5. Gender Equality, SDG 7. Affordable and Clean Energy, SDG 9. Industry, Innovation and Infrastructure, SDG 11. Sustainable Cities and Communities, and SDG 17. Partnerships for the SDGs.

1.2 TRANSITION IMPACT

The GrCF2 represents a strategic and multi-project approach seeking to help identify and address environmental challenges in selected large cities in our countries of operation. The primary goal is to achieve significant environmental improvements and to promote the **Green** transition quality within the relevant cities. In addition to the environmental objective, the GrCF2 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. Depending on which area can generate the strongest and most relevant transition impact, either **Well-governed, Inclusive, Resilient or Competitive** will be pursued and presented as the secondary transition quality for each sub-Project under the framework. These transition objectives are supported by the development and implementation of a city-specific GCAP aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the environmental challenges through targeted investments, services and policy instruments.

Tbilisi was one of the first three cities to join the EBRD Green Cities and one of the first to complete a GCAP. To date 71 per cent of the actions identified under its GCAP are at least ‘under implementation, and an additional 17 per cent ‘in preparation’. This Project also marks Tbilisi as the city with the most investments under the EBRD Green Cities. Please refer to Annex 2 for an overview of the Green Cities Programme.

The Project will primarily help to promote the **Green** transition quality by introducing buses that will reduce local air pollution and transport related environmental impacts, which were identified in Tbilisi’s GCAP as a priority (“*Bus fleet renewal with low/zero emission buses*”). The Project will also support the **Well-governed** objective through introduction of integrated tariffs. The Project will also support Tbilisi in development of an urban e-mobility roadmap through post-signing support. The Project will also promote access to safe transport for women and children by improving security measures that address any form of Gender Based Violence and Sexual Harassment at the Bus Depot and surrounding facilities. The Project will also aim to collect sex-disaggregated data of transport users to inform Bus routes and schedules.

Delivery risks to transition impact [REDACTED] are mitigated by the following factors: (a) the GCAP was approved by the City and is currently under implementation; (b) the City remains committed to support green development (combating air pollution in the City remains high on the political agenda); (c) the loan covenants and TC support for the Project.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	The Project is a repeat sovereign transaction with Georgia and Tbilisi. This is a follow-on investment under the GCAP and forms part of a broader programme aiming to assist the City in implementing the GCAP. With this Project, Tbilisi will complete bus fleet renewal and fully replace outdated polluting buses with modern environmentally clean transport. The first and second projects were signed in May 2016 (DTM 47166) and November 2019 (DTM 51207).

Additionality sources	Evidence of additionality sources
<p>Financing structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period than the market average, restricted foreign currency financing etc. Such financing is necessary to structure the Project. EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</p>	There is very limited market for long-term municipal borrowing for local authorities in Georgia. Local banks cannot offer loans matching the economic life of infrastructure assets. [REDACTED].
<p>Risk mitigation - EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.</p>	The Project will achieve reductions in CO ₂ emissions [REDACTED], as well as PM [REDACTED] and NO _x [REDACTED].
<p>Standard-setting: helping Projects and clients achieve higher standards – Client seeks/makes use of EBRD expertise on higher environmental standards, above ‘business as usual’. Client seeks/makes use of EBRD expertise on higher inclusion and gender standards and/or equal opportunities action plans. Client seeks/makes use of EBRD expertise on best international procurement standards.</p>	EBRD transition impact, environmental and social related conditionalities go far beyond what commercial funding sources would require, including procurement procedures, accounting transparency, sector reform (adoption of public performance contracts) and clear link to the green economy. The Project will leverage the results achieved through the EBRD’s previous bus projects. The Project will identify clear measures for the security of women and children transport users in the bus depot and surrounding facilities such as parking lots, pavements and ensuring their safe access to the transport system. The Project will also aim to collect sex-disaggregated data of transport users to inform improvements in transportation routes and schedules.
<p>Knowledge, innovation and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the Project’s objectives, including support to strengthen the capacity of the client.</p>	The EBRD has extensive urban transport sector knowledge and long-standing relationship (including policy dialogue) and GCAP implementation with the counterparts, which will contribute to successful implementation of the Project.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability/ Effect	Comments
Project specific risks		
Georgia's Creditworthiness as Borrower	Medium/ Medium	[REDACTED] Georgia's public debt increased from 40.4 per cent of GDP in 2019 to 60.7 ⁷ per cent in 2020 [REDACTED] External public debt, which is denominated in foreign currency and mostly owed to multilateral and bilateral donors on concessional terms, represented 79 per cent of the total public debt and approx. 48 per cent of 2020 GDP. [REDACTED].
Financial Performance of the City	Low/High	The City's budget has been growing in recent years, with the exception of 2020, [REDACTED] due to COVID-19 crisis and lower tax revenue (the main source of the City's income). [REDACTED] The loan is sovereign to Georgia and the risk rests at the sovereign level.
Implementation Risk	Low/High	The City and the Company have successfully implemented a number of IFI-funded projects, including with the EBRD. [REDACTED]
External risks		
Exchange Rate Risk	Medium/ Medium	[REDACTED] Under the floating exchange rate regime, the National Bank of Georgia (NBG) intervenes in the foreign exchange market only to smoothen out excessive currency volatility. [REDACTED].

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	Monitoring benchmarks	Implementation timing
<ul style="list-style-type: none"> - Good financial and operational performance - On-time project implementation 	<ul style="list-style-type: none"> - Growth in revenues, profitability and cash flows - Completion according to the timeline and within the budget 	[REDACTED]

The TI objectives and the relevance for this sub-project are detailed in the table below. The transition qualities will be monitored at the Framework level aggregating data on each transition benchmark in the table below for all sub-projects.

Primary quality: Green							
Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Details (FW)	Details for Specific Sub-Project	Baseline (Sub-Project)	Target (Sub-Project)	Due date (FW)
1.1	Number of recommended policy or strategy agreed by relevant stakeholder(s)	Recommended policy or strategy agreed by relevant stakeholder(s)	New Green City Action Plans: 30 new GCAPs finalised and submitted for approval by relevant authorities, and includes priority actions and a monitoring strategy in each participating City. Baseline target of the GrCF and GrCF2 combined is 20 GCAPs.	Tbilisi's GCAP approved by the City in September 2017, including an implementation and monitoring strategy.	[REDACTED]	[REDACTED]	[REDACTED]

⁷ This information was accurate as at the date of preparation of the document, but has since changed (and is subject to change further)

1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Strong follow-on support: 50% of transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.	The Project is the City's seventh (7 th) follow-on investment from the GCAP, which addresses the priority challenge of air pollution through bus fleet renewal with low/zero emission buses.	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Multiple green investments: Each participating city makes on average at least 3 investments (with or without EBRD financing) that address priority environmental challenges identified by the GCAP, where all EBRD financed projects will meet the extended Framework's eligibility criteria for investments.	The Project will be signed and implemented and meets the eligibility criteria for investments under GrCF2. The project will result in environmental benefits, namely reduced local air pollution [REDACTED]. Reduction in SO _x [REDACTED]; NO _x [REDACTED]; and, PM [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	Effective GCAP implementation: The Framework achieves at least 50 per cent of all verifiable targets, set in the GCAP, within 5 years after the respective GCAP finalisation (including both investments and well-defined policy measures).	The Project addresses the GCAP target of bus fleet renewal with low/zero emission buses.	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Improved environmental standards	Improved environmental standards	Environmental impact: The Framework achieves significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for	While the Project addresses the City's priority needs and reducing the environmental impacts of the City's transport sector by	[REDACTED]	[REDACTED]	[REDACTED]

			priority environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities.	improving the bus fleet and encouraging a shift to public transport systems, the relevant environmental improvements within the respective cities will not be monitored at project level.			
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Secondary quality: Well-governed

Obj. No.	FW Monitoring Indicator	Corresponding Sub-Project Monitoring Indicator	Further Details Sub-Project level	Details for Specific Sub-Project	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)
2.1	Number of tariff reforms in target segment adopted by authorities	Tariff reform in target segment adopted by authorities	A formal cost recovery tariff methodology is introduced, approved and respected by the authorities.	The City to introduce integrated tariffs.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Number of Public service contract or Public Service Obligation signed and implemented	Public service contract or Public Service Obligation signed and implemented	A new service contract in line with international practice is developed and signed (not a revision to an existing PSC) and respected by the parties during the first 2 years of the contract – and where such contract is not a norm in the country.	A performance-based PSC, signed in July 2021, to be implemented and respected by the City and the Company.	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Number of institution-level capacity strengthened in target area	Institution-level capacity strengthened in target area	Promote and help implement priority policy actions, as identified in the GCAP, enabling governance or land planning improvements.	Urban E-Mobility Roadmap developed for Tbilisi.	[REDACTED]	[REDACTED]	[REDACTED]

Additional indicators

Indicator type	Monitoring Indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunities practices of the client)	Client improves standards by introducing security measures that address Gender Based Violence and Sexual Harassment at the bus depot and surrounding facilities.	[REDACTED]	[REDACTED]	[REDACTED]

Project Monitoring Indicators

Indicator	Projected Impact	Implementation Timing
Green		
Total Population benefitting from improved public transport services (individuals)	1.2 million population of Tbilisi City	[REDACTED]
Annual reduction in tonnes of CO ₂ equivalent savings (tonnes CO ₂ eq / yr)	[REDACTED] CO ₂ e q [REDACTED] savings on current emissions	[REDACTED]

3. KEY PARTIES**3.1 BORROWER / CLIENT**

The Borrower is Georgia, represented by the Ministry of Finance. In 2020, Georgia faced coronavirus-induced crisis after the robust expansion of the economy in the previous years. With tourism receipts amounting to nearly one fifth of overall GDP, the negative impact of COVID-19 containment measures and continued restrictions on international travel hit many sectors. GDP contracted by 6.2 per cent in 2020. In February 2021 and in May 2021, during their periodic review, Moody's confirmed Government of Georgia's rating at 'Ba2' with stable outlook. Following outlook revision from stable to negative in April 2020, Fitch affirmed Georgia's Long-Term Foreign-Currency Issuer Default Rating (IDR) rating at 'BB' and outlook at negative in February 2021. Standard & Poor's revised its outlook on Georgia from stable to negative in February 2021, while affirming their long-term foreign and local currency sovereign credit ratings of the Government of Georgia at 'BB/B'. Please refer to Annex 3 for a detailed public debt sustainability analysis of Georgia.

3.2 THE CITY AND THE COMPANY

The City: The City has relatively strong financials and adequate leverage. In 2020, total revenues was GEL 868.5 million [REDACTED].

Current expenditures were increased to GEL 825.2 million [REDACTED].

The City had a current surplus. [REDACTED] Please refer to Annex 4 for the detailed historical financial analysis of the City.

The Company: The Company's main sources of revenue is the revenue from passenger transportation by the three main categories of transport: buses; metro; and cableway. The Company receives the full tariff for every passenger transported, either by direct ticket sales to the customers or subsidy received from the City. The capital expenditures of the Company are covered by the City's budget [REDACTED].

4. MARKET CONTEXT

Tbilisi has a population of 1.2 million, which equals to one third of the total population of Georgia. The organisation of public transport, including traffic management and supervision of public transport including minibuses, is the responsibility of the Transport Authority ("Transport and Urban Development Agency" or "TUDA") under City administration. TUDA was established in January 2020, as part of the transport reform supported by the Bank, to manage all urban transport in a comprehensive and integrated manner.

The City-owned TTC (formerly Tbilisi Metro Ltd.) is the principal transport operator in the city, operating bus routes, the metro and cable-car lines. The Company was founded in 1966 when the first line of Tbilisi metro was opened. The current bus network in Tbilisi has replaced former tramway and trolleybus networks, which were abandoned in 2006 along with the previous bus network.

In addition to the Company routes, four private minibus companies (jointly “Minibus Operators” or “TMC”) operate the additional bus routes (second and third tier routes), including the majority of microbus routes with 20-year licences awarded in 2011.

The relations between the Company and the City are governed by the local legislation as well as the Company’s charter. As part of the Bank’s policy dialogue, TUDA and TTC signed a PSC, as well as a separate PSC was signed between TUDA and TMC. This was the first time PSCs were introduced to the urban transport sector in Tbilisi. This was an integral step as PSCs formally specify the contractual relationship between the public transport authority and the public transport operator, thus allowing to define the conditions for efficient public transport services, to allocate tasks and responsibility, and in general, to increase transparency.

The bus fares are approved and regulated by the City Council, while minibus fares are set by the private operators with advance notification to the City. Since 2008, the City has established an electronic ticket system for transport services through a service contract with two separate systems, one for transport routes operated by the Company and the other for those operated by the private operators. The single fare for the municipal transport (metro, bus) costs 0.5 GEL (EUR 0.2), including free transfers during 90 minutes, and the ropeway of Rike-Narikala costs 1.0 GEL. The minibuses charge GEL 0.8 (EUR 0.3) per trip. [REDACTED] With the assistance from the Bank’s funded consultants working on restructuring the bus network under Tbilisi Bus Project, the City prepared ground for integration of these two ticketing systems. As part of this Project, the City / TUDA will further be supported to introduce and implement the integrated tariffs. This initiative will further improve user experience (through integrated ticketing and tariffs) and is anticipated to attract users, shifting from more polluting modes.

With the proposed investment, the attractiveness of buses as a means of transport will be enhanced further, which in turn will encourage passengers to continue to use public bus services, preventing a shift to minibuses and cars. The benefits of the Project include reduced journey times and reduced delays and subsequently lower negative environmental impacts attributed to the higher level of service attraction and modal shift.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 ECONOMIC ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (Environmental and Social Policy 2019). E&S impacts associated with the purchase and operation of the new low emission CNG buses of EURO VI standard and construction of the new bus depot will be mainly beneficial. Any potential adverse E&S impacts will be site-specific and manageable through the implementation of good management practices. The Project will contribute to improving accessibility and mobility for all user groups, air quality in the city, safety and efficiency of urban transportation.

An Environmental and Social Due Diligence (“ESDD”) has been undertaken by an independent consultant and included analysis of the existing Environmental and Social Management Systems and performance, status of implementing ESAP actions for the previous transactions; as well as assessment of the impacts associated with this Project. Assessment also included an analysis of E&S impacts and benefits associated with the Project to ensure the proposed specification for the buses will meet EU requirements, considering the findings of the independent technical assessment.

The Company is an existing Client of the Bank and the ESDD has confirmed that over the past years the Company has made a substantial progress in implementing E&S improvements and has institutional and technical capacity to deliver the Project according to the Bank requirements. The Bank has been also supporting the Company through a number of TCs, specifically, Safety Management System Implementation, Traffic and Driving Safety Management, Gender and PIU TC support.

The Company has addressed community safety and occupational health and safety risks linked to the COVID-19 response in line with Government guidelines through the Infectious Diseases Management Plan (COVID Management Plan) and the drivers are instructed to follow related procedures.

The due diligence has indicated that current environmental, occupational health and safety, and stakeholder engagement practices are in line with the national legislation. TTC continues to duly implement actions agreed with EBRD under the previous ESAP. Gender assessment was done for the previous projects, based on which a TC aimed at equal opportunities and training of female bus drivers has been implemented. To further enhance gender component of the Project the Bank will support the Client in introducing the tariff reform in favour of increased access to services for women and improving security measures that address Gender Based Violence and Sexual Harassment at the bus depot and surrounding facilities.

ESDD has identified potential gaps associated with the new Project, which include, inter alia, historical contamination of the proposed bus depo site with biological and other waste, community impacts, air pollution and needs in additional environmental surveys and permitting.

The ESAP has been updated to include further improvements and enforcement of safe labour practices, traffic and fire safety, waste management, regulatory permitting compliance, stakeholder engagement. The ESAP has been fully agreed with the Client. The Bank will monitor the Company's activities through annual E&S monitoring reports.

6.2 INTEGRITY

The updated integrity due diligence was undertaken on Tbilisi City Administration, the Company, its shareholders, senior management and other relevant parties. The review did not identify any material integrity issues. [REDACTED] It was therefore concluded that this Project does not pose an unacceptable reputational risk to the Bank.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation, which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Project Implementation and Procurement Plan
ANNEX 2	Implementation Progress of GrCF / GrCF2
ANNEX 3	Public Debt Sustainability of Georgia
ANNEX 4	Historical Financial Analysis
ANNEX 5	SSF TC fiche

ANNEX 1: PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

Procurement classification – *Public [sovereign]*

Project risk assessment: [REDACTED]

Project implementation arrangements:

The Bank has hired two pre-signing consultants to support the project preparation.

The Technical DD Consultant (TC 1) *among other things* is tasked with:

- Development of technical specifications for the buses and provision of technical support during tender evaluation phase for the buses; and
- Development of conceptual design for the depot and provision of technical support during tender evaluation phase for the depot.

In parallel, the Pre-signing procurement support consultant (TC 2) shall:

- Review the technical specifications developed by the technical team and provide comments if any [REDACTED]; and
- Provide procurement support for the procurement of buses, up to contract signing. *The procurement consultant will be assisted by the technical consultants during the clarifications and evaluation phases of the tender as and if necessary.*

The Client shall provide a dedicated PIU with the same staffing as approved for the ongoing projects of EBRD [REDACTED].

Procurement arrangements:

All goods, works and services, financed from the Bank’s loan, will be procured following open tendering procedure in accordance with the requirements of the Bank’s Procurement Policies and Rules (“PP&R”) for public sector operations.

All procurement will be conducted through ECEPP, thus warranting that the Client shall use only the latest templates and standard tender documents and contract forms. [REDACTED]

All contracts included in the Project will be subject to prior review by the Bank.

No exceptions or derogations from the PP&R are requested or envisaged.

Additional information:

Considering that the Client has requested to start the Project implementation as soon as possible, there is a possibility that retroactive financing might be required in the amount up to 20 per cent of the loan amount.

The COVID-19 related risks and limitations during the tender process are mostly mitigated by the use of the ECEPP.

ANNEX 2: IMPLEMENTATION PROGRESS OF GrCF / GrCF2

Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 3 billion in EBRD and donor funding. The Green Cities Framework (GrCF), approved by the Board in November 2016, set an ambitious agenda for the Bank's municipal business, with the over-arching aim being 'to serve as a sector-wide catalyst for addressing environmental challenges at the City level'. After only 2 years of operation, the Framework proved its ability to act as such a catalyst with the utilisation of the entire EUR 250 million headroom. As a consequence, in October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2), with a headroom of EUR 1.1 billion, with EUR 700 million from the Bank's own capital and the remainder from the Green Climate Fund (GCF) and other donors. Given the sizeable amount from the GCF, in the form of concessional loans and grants for both capex and TC and the requirement to confirm to GCF the availability of Bank co-financing, GrCF2 is divided into two windows: Window I for GCF co-financing and Window II for non GCF co-financing. Following the continuing successful uptake, in November 2020, an extension of EUR 950 million was approved for GrCF2 WII.

Tbilisi was one of the first three cities to pioneer GCAP development, and approved it in September 2017. Since then the City is actively implementing more than 70 per cent of measures from its GCAP with both EBRD support and its own funds. Namely, the City is working on bus fleet renewal (OPID 51207), bus network restructuring, rehabilitation of metro system (OPID 51392), modernisation of waste collection equipment and landfill (OPID 47582, OPID 52825). In addition, the City is implementing the policy measures structured under its GCAP. In the buildings sector a set of Minimum technical requirements for new construction and major renovation of buildings is approved along with the adoption of the Law of Georgia on "Energy efficiency of buildings". In the urban transport sector, the City started the development of Sustainable Urban Mobility Plan (SUMP), as well as regulation of taxis. In the land use sector, Tbilisi adopted a new Sustainable Urban Planning System (Land Use Master Plan). In the waste sector Tbilisi Waste Management Action Plan is adopted, and preventive measures for illegal dumping are under implementation. The City is also actively working towards climate resilience measures recommended under the GCAP. Namely, Resilience Strategy for the City of Tbilisi (under the 100RC) has been developed, along with awareness raising campaign for general public. [REDACTED].

Progress on TI objectives GrCF and GrCF2 to date:

To date 52 transactions have been signed through the GrCF and GrCF2, or as a result of GCAPs. Out of these projects, 24 are follow-on investments (46 per cent). So far, 35 GCAPs have been initiated, of which 18 have been adopted, 1 completed, 12 initiated and 4 under procurement⁸. [REDACTED].

⁸ This information was accurate as at the date of preparation of the document, but is subject to further change.

ANNEX 3: PUBLIC DEBT SUSTAINABILITY OF GEORGIA

[REDACTED]

ANNEX 4: HISTORICAL FINANCIAL ANALYSIS

[REDACTED]

ANNEX 5: SSF TC FICHE

[REDACTED]