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

Approved by the Board of Directors on 9 March 2022[1]

# GEORGIA

# GREEN INVESTMENTS IN BUILDINGS (GRIB) - GEORGIA

*[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

# ABBREVIATIONS / CURRENCY CONVERSIONS

| | |
|---|---|
| AA | EU Association Agreement signed by Georgia |
| CO2 | Carbon Dioxide |
| D&S | Design and Supervision |
| EBRD | European Bank for Reconstruction and Development |
| ECS | Energy Community Secretariat |
| EE | Energy Efficiency |
| EFF | Extended Fund Facility |
| EIRR | Economic Internal Rate of Return |
| EOAP | Equality of Opportunity Action Plan |
| EPBD | EU Energy Performance of Buildings Directive |
| ESAP | Environmental and Social Action Plans |
| ESDD | Environmental and Social Due Diligence |
| EU | European Union |
| EU NIP | European Union Neighbourhood Investment Platform |
| EUR | Euro |
| FAA | Funded Activity Agreement |
| FTE | Full-time equivalent |
| FX | Foreign Exchange |
| jMDB | Joint Multilateral Development Banks |
| KfW | Kreditanstalt für Wiederaufbau |
| GDP | Gross Domestic Product |
| GEL | Georgian Lari |
| GET | Green Economy Transition |
| GHG | Greenhouse Gas |
| GOG | Government of Georgia |
| IFI | International Financial Institution |
| IMF | International Monetary Fund |
| MDF | LEPL Municipal Development Fund of Georgia |
| MES | Ministry of Education and Science of Georgia |
| MOESD | Ministry of Economy and Sustainable Development of Georgia |
| MOF | Ministry of Finance of Georgia |
| MRDI | Ministry of Regional Development and Infrastructure of Georgia |
| NBG | National Bank of Georgia |
| NDC | Nationally Determined Contributions |
| NECP | Integrated National Energy and Climate Plan |
| NEEAP | National Energy Efficiency Action Plan |
| O&M | Operations and Maintenance |
| PIP | Priority Investment Plan |
| PIS | Project Implementation Support |
| PIU | Project Implementation Unit |
| PP&R | Procurement Policies and Rules |
| SA | Special Account |
| SDG | Sustainable Development Goals |
| SEP | Stakeholder Engagement Plan |
| SSF | EBRD Shareholder Special Fund |
| TC | Technical Co-operation |
| VAT | Value Added Tax |

## CURRENCY CONVERSION

| **EUR / GEL**[2] | **2018** | **2019** | **2020** | **2021** |
|---|---|---|---|---|
| Annual average | **2.9913** | **3.1553** | **3.5519** | **3.8140** |

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 40 million, structured in three tranches. The loan will comprise of Tranche I (committed) of up to EUR 20 million and Tranches II and III (uncommitted) of up to EUR 10 million each. The Bank's loan will be co-financed by a EUR 10 million capital grant from the EU Neighbourhood Investment Platform ("NIP").

The operation will enable the Borrower to improve the energy efficiency practices across the country through the rehabilitation and upgrade of up to 200 public buildings (the "Project") and is part of a joint initiative with Kreditanstalt für Wiederaufbau ("KfW") to improve the energy performance of public buildings. The Project will contribute to Georgia's decarbonisation efforts in line with the Paris Agreement.

The expected transition impact of the Project is to be derived from the Green quality, as the proceeds of the loan will be 100 per cent GET eligible, resulting in significant GHG emission reductions. In addition, the Project mandates adoption of the legislation related to the EU Energy Performance of Buildings Directive. Another source of transition impact is the Well-Governed quality, as the Project will focus on institutional strengthening in the energy efficiency sector as well as support the private sector participation. The Project is classified as Gender Smart, as it will also aim to promote women's participation in the sector through the development and implementation of an Equality of Opportunity Action Plan.

Technical Cooperation ("TC") support for the Project's preparation was financed by the EBRD Shareholder Special Fund (the "SSF"). Post-signing TC for Project Implementation Support is expected to be funded by an international donor or the SSF.

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 substantially on the terms of the attached Report.

**Odile Renaud-Basso**

# BOARD DECISION SHEET

| GEORGIA – GREEN INVESTMENTS IN BUILDINGS (GRIB) - GEORGIA - DTM 51145 | |
|---|---|
| **Transaction / Board Decision** | Board approval[3] is sought for a sovereign loan of up to EUR 40 million in favour of Georgia to finance energy efficiency upgrade and rehabilitation of up to 200 public buildings across the country. The Bank's loan will be co-financed by a EUR 10 million grant from the EU Neighbourhood Investment Platform ("NIP"). [REDACTED]. |
| **Client** | Georgia as the Borrower. The Implementing Entity is the Municipal Development Fund (the "MDF"), a state entity in charge of implementing and monitoring infrastructure projects. |
| **Main Elements of the Proposal** | <u>Transition impact:</u><br>• *Green* – The Project will improve the energy efficiency of public buildings resulting in significant GHG emission reductions. In addition, it mandates the adoption of relevant energy efficiency legislation.<br>• *Well-governed* – The Project will support building the Government's capacity to incorporate energy efficiency aspects into building construction and operations and increased private sector participation.<br><u>Additionality:</u><br>• Financing structure – long-term financing, which is necessary to structure the Project is not available in the country; the Project will close financing gap.<br>• Policy, sector, institutional, or regulatory change - the Project requires the adoption of relevant energy efficiency legislation.<br>    • Standard-setting: helping projects and clients achieve higher standards – The Bank's involvement is additional through its country, sector and energy efficiency technology expertise, especially for energy efficiency in buildings. The Bank's conditionalities go far beyond the requirements of commercial funding sources, including procurement procedures, accounting transparency, sector reform and clear links to the green and inclusive economy, through promoting higher standards of gender equality in the sector as well as inclusive access to public buildings.<br><u>Sound banking:</u><br>• The transaction is a sovereign loan. The Bank's Standard Terms and Conditions apply. [REDACTED]. |
| **Key Risks** | • Georgia's public debt sustainability is expected to be preserved in the medium term despite the significant widening in 2020 amid Covid-19 crisis. The country's sovereign credit rating stands at BB stable from Fitch, BB negative[4] from S&P and Ba2 stable from Moody's.<br>• The MDF has successfully implemented many IFI-funded projects and is experienced in carrying out procurement and contract administration in line with IFI's requirements. Thus, the MDF will establish a logistic chain and will have a strong project management approach, assisted by international consultants. |
| **Strategic Fit Summary** | The Project is consistent with the Bank's Municipal and Environmental Infrastructure Sector Strategy, the Country Strategy for Georgia, the Green Economy Transition Approach 2021-2025, as well as the Strategy for the Promotion of Gender Equality and Georgia's updated Nationally Determined Contributions under the Paris Agreement. |

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

4 For the avoidance of any doubt, this information was accurate as at the date of preparation of the document, but has since changed and is subject to further change.

# ADDITIONAL SUMMARY TERMS FACTSHEET

| | |
|---|---|
| **EBRD Transaction** | A sovereign loan of up to EUR 40 million to Georgia, represented by the Ministry of Finance ("the Borrower" or the "MOF"). The loan will be co-financed by a capital grant of up to EUR 10 million from the EU Neighbourhood Investment Platform ("NIP").<br>The loan will comprise of following tranches:<br>− Tranche I in the amount of up to EUR 20 million (to be committed at signing),<br>− Tranche II in the amount of up to EUR 10 million (uncommitted), and<br>Tranche III in the amount of up to EUR 10 million (uncommitted). [REDACTED]. |
| **Existing Exposure** | **Total amount of sovereign exposure:** Portfolio: EUR 516.2 million (DTM numbers: 4304; 36538; 37560; 37801; 39579; 40019; 45181; 45956; 47166; 47582; 48098; 48104; 48365; 49649; 50271; 50842; 51207; 51392; 51422; 51438; 52565; 52577; 52825), [REDACTED]. |
| **Maturity / Exit / Repayment** | The loan tenor is fifteen years [REDACTED]. |
| **Potential AMI eligible financing** | None. |
| **Use of Proceeds** | The loan and capital grant proceeds will be used to finance the energy efficiency ("EE") upgrade and rehabilitation of up to 200 public buildings across the country. These are mainly existing schools currently owned by the Ministry of Education and Science ("MES"), The Project will be implemented by the Municipal Development Fund of Georgia (the "MDF" or the "Client"), a state entity implementing infrastructure projects under the Ministry of Regional Development and Infrastructure ("MRDI").<br><br>Procurement of the loan financed contracts will be carried out in accordance with the Bank's Procurement Policies and Rules ("PP&R"). [REDACTED]. The Project will employ a special account ("SA") which will be opened in the state treasury[5] to ensure that the Client manages small loan disbursements to the contractors to avoid overloading the Bank's resources. The SA will be audited annually in line with the EBRD disbursement handbook. |
| **Investment Plan** | [REDACTED] |
| **Financing Plan** | [REDACTED] |
| **Key Parties Involved** | • MOF – signatory to the Loan Agreement<br>• MRDI – signatory to the Grant Agreement and<br>• MDF – signatory to the Project Implementation Agreement |
| **Conditions to effectiveness** | [REDACTED] |
| **Conditions to first disbursement** | [REDACTED] |
| **Conditions precedent to Tranche II commitment** | [REDACTED] |
| **Conditions precedent to Tranche III commitment** | [REDACTED] |
| **Key Covenants** | [REDACTED] |

5 For the avoidance of any doubt, this refers to the Treasury Account of the Ministry of Finance with National Bank of Georgia

| | |
|---|---|
| **Security / Guarantees** | Sovereign loan. |
| **Other material agreements** | • Loan Agreement between the Bank and the Borrower.<br>• Project Agreement between the Bank and the MDF.<br>• Grant Agreement between the Bank and the MRDI. |
| **Associated Donor Funded TC and co-investment grants/concessional finance** | **A. Technical Cooperation (TC)**<br>*Pre-Signing*<br>• **TC 1: Scoping study Public Building Energy Efficiency Programme for Georgia.** [REDACTED]. The cost of the assignment is EUR 79,985 financed by the EBRD Shareholder Special Fund ("SSF").<br>• **TC 2: Environmental and social due diligence ("ESDD")**. The cost of the assignment is EUR 58,975 financed by the SSF.<br><br>*Post-Signing:*<br>• **TC 3: Design & Supervision ("D&S")** [REDACTED]. The estimated cost of this assignment (which might be split among several contracts) is up to EUR 4,800,000 net of taxes, of which EUR 2.55 million are expected to be funded by the EU NIP. The remaining EUR 2.25 million are proposed to be financed from loan proceeds.<br>• **TC 4: Project Implementation Support ("PIS")** [REDACTED]. The estimated cost of the assignment is up to EUR 1,000,000, proposed to be financed by an international donor or the SSF.<br><br>Client contributions: The Client will provide financial contribution to the Project by co-financing TC 3 (D&S Services) in the amount of up to EUR 2.25 million from the EBRD loan proceeds. In addition, the Client will cover all VAT costs associated with the Project. VAT is 18 per cent in Georgia.<br><br>**B. Co-investment grants / Concessional Finance (Non-TC)**<br>A confirmed capital grant of up to EUR 10 million is provided by the EU NIP to enable deep energy efficiency retrofit, structural strengthening and to overcome under-heating obstacles. |

[REDACTED]

# INVESTMENT PROPOSAL SUMMARY

## 1. STRATEGIC FIT AND KEY ISSUES

### 1.1 STRATEGIC CONTEXT

The Bank has a well-established relationship with the Government of Georgia ("GOG"), particularly in assisting the GOG to achieve its commitment under the Nationally Determined Contribution to reduce its Greenhouse Gas ("GHG") emissions by 15 per cent by 2030. Buildings represent 30 per cent of Georgia's final energy use and are one of the economy's key sectors in which to achieve decarbonisation, in line with the Paris Agreement.

Georgia became a party to the Energy Community on 1 July 2017, which provided a timeframe for implementing key energy market reforms agreed under the EU Association Agreement ("AA") of 2014, including areas of EE. As part of this effort, the GOG is adopting various policy documents and commitments to transform the building sector to higher EE, as well as to achieve its renovation target for centrally owned public buildings (1 per cent per year according to the AA).

[REDACTED]. The [REDACTED] NEEAP contains 44 measures, of which 13 relate to building sector. The Project will directly contribute to the implementation of seven measures included in the NEEAP and will indirectly support the implementation of other policy measures by testing EE practices and regulations alongside their formal adoption.

Furthermore, this Project is consistent with Georgia's updated Nationally Determined Contributions ("NDC") under the Paris Agreement. Namely, the NDCs endorse "the development of low carbon approaches in the building sector, including public and touristic buildings through encouraging the climate-goals oriented energy efficient technologies and services."

Acceleration of infrastructure projects is crucial for Georgia's economy, as it will ensure job creation and boost the local economy, in the face of COVID-19's impact on key sectors, such as tourism, hospitality, trade, construction, etc. Therefore, the Government is committed to continuing the infrastructure sector investments and to pursuing priorities identified prior to the crisis, with this Project confirmed as one of these priorities. Building construction is a large sector for employment with high participation of small and medium businesses. [REDACTED]. Therefore, it is expected that this Project will contribute positively to the economy and provide employment opportunities. Building renovations targeted by this Project will overall improve the health and sanitary conditions in public buildings (majority being schools) improving the response capacity for similar situations.

The Project is part of a joint initiative with KfW, which provides a parallel sovereign financing [REDACTED] to Georgia. This includes loan and grant resources for financing the EE upgrades and rehabilitation of additional buildings.

The Project draws upon experience from the Bank's other public building renovation projects, in particular Chisinau Buildings and the Ukraine Public Sector Energy

Efficiency Financing Framework. These provide valuable lessons learned on the design of EE investments, market readiness assessment and procurement arrangements.

The Project is in line with the Bank's Strategy for Georgia, by "accelerating Green Transition through increased investments and better governance"[6]. The Project is also consistent with the Bank's Municipal and Environmental Infrastructure ("MEI") Sector Strategy, which notes that "[…] buildings are responsible for more than 40 per cent of global energy consumption, MEI expanded its investments into energy efficiency in residential and public buildings, as well as street lighting, aiming to reduce CO2 emissions."

The Project is compatible with the Green Economy Transition Approach ("GET") 2021-2025, which identifies Green Buildings as key themes to accelerate the decarbonisation. Finally, the Project is in line with the Bank's Strategy for the Promotion of Gender Equality by introducing higher standards of gender equality and supporting development and implementation of an Equality of Opportunity Action Plan ("EOAP"). Based on this, the Project will contribute to achieving the Sustainable Development Goals ("SDG"), particularly SDG 5: Gender Equality, SDG 7: Affordable and Clean Energy, SDG 8: Good Work and Economic Growth, SDG 9: Industry, Infrastructure, Innovation, SDG 11: Sustainable Cities and Communities.

## 1.2 TRANSITION IMPACT

**Primary Quality: Green**

| Obj. No. | Objective | Details |
|---|---|---|
| 1.1 | The percentage of EBRD use of proceeds allocated to the Project that qualifies as GET is 50 per cent or higher. | The Project is expected to be 100 per cent GET, as the majority of loan proceeds will be allocated to energy efficiency or renewable energy investments. Primary energy savings of more than 51 per cent are estimated. |
| 1.2 | The project entails a package of policy dialogue on one or more green topics, which fulfils the following condition: the dialogue aims to achieve a clear policy outcome (e.g. regulatory change). | By providing different policy dialogue TCs, the Bank supported Georgia in drafting the first NEEAP and EE law. In addition, the Energy Community Secretariat (ECS) has supported the transposition of the EPBD in Georgia and a draft law has been finalised. During the project development and negotiations, the EBRD together with its partners requested the adoption of the legislation related to the EPBD by 2021. The grant co-financing provided by EU, which is a fundamental part of the Project, was conditional on the adoption of the relevant legislation to underline the importance of this Project and finalise the preparatory works of the EBRD and its partners. Shortly after the first round of Project negotiations, in May 2020 Georgia adopted the Law on Energy Efficiency in Buildings. As adoption of the underlying bylaw regulating the energy performance requirements in buildings was a prerequisite for implementation of this Project, the sector policymaker – the Ministry of Economy and Sustainable Development of Georgia submitted the required bylaws for approval ahead of completion of the negotiations. The secondary legislation regulating the minimum energy performance requirements for buildings and |

6 At the time of original approval in May 2020 the Project was in line with previous Strategy for Georgia

| | | |
|---|---|---|
| | | the national calculation methodology for buildings performance were adopted in July and September 2021 respectively. Thus a clear policy outcome was achieved.<br>As a result of the Project, increased availability of EE technology and services will make investments in EE building renovations more accessible and affordable, thus reaching an impact far beyond the Project. Due to the large number of targeted buildings and multiple construction contracts many local firms will be able to increase their capacity to design and work with EE technologies in construction. Together with the covenanted adoption of the Law on EE, which includes energy performance requirements in buildings, the Project will stimulate demand for the EE in the residential and commercial sectors matched by the market having sufficient ability to respond. |

**Secondary Quality: Well-Governed**

| Obj. No. | Objective | Details |
|---|---|---|
| 2.1 | The project and associated TC activities will mandate the introduction of a necessary and relevant specific regulatory instrument (e.g. necessary secondary legislation) to manage sound commercial solutions to the sector. | The Project mandates adoption of national energy performance requirements across the country considering the climate zoning. This will provide the necessary guidance for the construction sector impacting the construction of new buildings and major renovations, transforming the building sector over time. The expected impact of this objective is countrywide. Through its investment the Project will provide first-hand practical experience of implementing the new EE requirements. |
| 2.2 | The project and associated TC activities will mandate the introduction of or improvements to the municipal/regional authority (i.e. multi-municipality) to plan and coordinate infrastructure provision where such arrangements are common in the country. | The Project will support the public sector capacity by incorporating EE aspects into building construction and operation. The TC will help build critical capacity at the MDF, a key player in infrastructure development, including the construction of public buildings. The activities under the TC will support the MDF to develop EE guidelines and performance requirements, which can be used for building renovation and construction projects outside the scope of this Project. The World Bank Millennium identified major shortages in the current public building operation and maintenance ("O&M") process and provided comprehensive recommendations. The TC support will take these into account for rolling-out the O&M improvements in targeted schools, establishing the right processes for addressing O&M needs, identifying budgetary needs and ensuring that sufficient capacity is available to carry out maintenance works. In addition, the O&M process will incorporate the training of relevant staff and building occupants to ensure increased sustainability of energy savings, continuous monitoring and improved building performance. |

**Delivery risks:**
The risk was associated with Georgia's willingness to adopt the regulatory changes [REDACTED]. Currently there is a risk on how the adopted legislation will be enforced. The risk will be mitigated by incorporating relevant energy performance requirements to the Project. The MDF is an experienced counterpart for implementing IFI-funded projects and despite the Project's complex implementation arrangements,

the MDF is expected to manage the Project well with assistance of experienced PIS consultants.

## 1.3 ADDITIONALITY

| Identified triggers | Description |
|---|---|
| No triggers identified | n/a |

| Additionality sources | Description of additionality sources |
|---|---|
| **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. | The Bank will provide the necessary long-term financing for energy efficiency measures in public buildings. Due to existing market inefficiencies, such financing is not readily available from commercial banks. |
| **Financing Structure –** 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. | The Project is part of a larger investment co-financed by another IFI and international donor. |
| **Policy, sector, institutional or regulatory change -** EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level. | The Project requires the adoption and implementation of the relevant EE legislation and related performance requirements. |
| **Standard-setting: helping projects and clients achieve higher standards** Client seeks EBRD expertise over energy and resource efficiency and climate resilience financing via provision of energy and climate audits, minimum performance standards of technologies, climate–related strategies and policies, monitoring, reporting and verification (MRV) systems etc. | The Bank's involvement is additional through its country, infrastructure sector and energy efficiency technology expertise, especially for energy efficiency in buildings where the Bank is developing expertise and a track record. |
| **Standard-setting: helping projects and clients achieve higher standards -** Client seeks EBRD expertise on higher inclusion and gender standards and/or equal opportunities action plans. | The client seeks EBRD expertise to incorporate higher gender standards and an EOAP. As part of the ESAP, the Bank will support the MDF in the process of developing and implementing an EOAP to ensure increased gender equality. This will include analysing the MDF's HR policies and practices to strengthen equal opportunities for employment, where gaps are identified across the MDF's operations, develop the EOAP for it; and supporting its management, HR function, and staff to implement the necessary changes to ensure successful implementation of the EOAP. |
| **Standard-setting: helping projects and clients achieve higher standards -** Client seeks EBRD expertise on best international procurement standards. | EBRD credit, transition impact and environmental (as reflected in the GET) related conditionalities go far beyond what commercial funding or public sources would require, including procurement procedures, accounting transparency and a clear link to the green and |

| | |
|---|---|
| | inclusive economy, through supporting the client to reach higher standards of inclusive access in public buildings, and promoting women's employment in the EE sector. |

### 1.4 SOUND BANKING - KEY RISKS

| **Risks** | **Probability / Effect** | **Comments** |
|---|---|---|
| ***Project specific risks*** | | |
| Creditworthiness of the sovereign | Medium-High/ High | [REDACTED]. The four-year Extended Fund Facility ("EFF") programme with the IMF, augmented at the onset of the pandemic, was concluded in April 2021 bringing total disbursements to about USD 687 million. [REDACTED]. |
| Implementation risks | Medium/ Medium | Due to a large number of buildings included in the Project, establishing a clear logistical chain and project management approach to avoid delays in the works and disruption in the processes will pose a major challenge throughout the Project implementation. The MDF has successfully implemented many IFI-funded projects and is experienced in carrying out procurement and contract administration in line with IFI requirements. In addition, the MDF will be supported by experienced international and local consultants at all stages of project implementation. |
| ***External risks*** | | |
| Exchange rate risk | Medium/ Medium | [REDACTED] [T]he Lari depreciated by 13 per cent in 2020 in total driven by rising uncertainty and a negative environment in external and regional markets. After appreciating in June 2021, the exchange rate has subsequently stabilised during the second half of 2021. [REDACTED]. |

## 2. MEASURING / MONITORING SUCCESS

| ***Overall objectives of project*** | ***Monitoring benchmarks*** | ***Implementation timing*** |
|---|---|---|
| - Compliance with design standards | - Progress reports, energy and environmental audits, supervision reports, as covenanted in the Loan Agreement | [REDACTED] |
| - On-time project implementation | - Completion according to the timeline and within the budget | [REDACTED] |

**Primary Quality: Green**

| **Obj. No.** | **Monitoring indicator** | **Details** | **Baseline** | **Target** | **Due date** | **TC** |
|---|---|---|---|---|---|---|
| 1.1 | Legal, institutional or regulatory frameworks in target areas improved [REDACTED] | Law on Energy Efficiency in Buildings to be adopted | [REDACTED | [REDACTED | [REDACTED | [REDACTED |
| 1.2 | Primary energy saved (GJ/y) | Primary energy savings achieved compared to a scenario where acceptable comfort levels are achieved. | [REDACTED | [REDACTED | [REDACTED | [REDACTED |

| | | | | | | |
|---|---|---|---|---|---|---|
| 1.3 | CO2 Emissions reduced (tonnes/yr) | CO2 savings achieved compared to a scenario where acceptable comfort levels are achieved. | [REDACTED | [REDACTED | [REDACTED | [REDACTED |

**Secondary Quality: Well Governed**

| Obj. No. | Monitoring indicator | Details | Base line | Target | Due date | TC |
|---|---|---|---|---|---|---|
| 2.1 | Recommended policy or strategy agreed by relevant stakeholder(s) [REDACTED] | Adoption of national energy performance requirements to be applied across the country considering respective climate zones. | [REDACTED | [REDACTED | [REDACTED | [REDACTED |
| 2.2 | Legal, institutional or regulatory frameworks in target areas improved | The PIS TC will support the MDF to develop respective guidelines for private sector involvement. The private sector is expected to engage in several stages of the Project: energy audits, design, construction, provision of advanced EE technologies and materials. Works contracts will require involved companies to guarantee the performance of certain equipment and will include servicing of these equipment for a number of years. | [REDACTED | [REDACTED | [REDACTED | [REDACTED |
| 2.3 | Legal, institutional or regulatory frameworks in target areas improved | Based on the adopted national regulations, the PIS TC will support the MDF to develop specific EE guidelines and performance requirements. These guidelines can be used for building renovation and construction projects outside the scope of this Project. | [REDACTED | [REDACTED | [REDACTED | [REDACTED |

**Additional Indicators**

| Indicator type | Monitoring indicator | Details | Baseline | Target | Due date | Donor |
|---|---|---|---|---|---|---|
| Advisory & Policy Indicators | Practices of the relevant stakeholder improved (equal opportunity practices of the client) [TC] | The client will adopt Equal Opportunity Action Plan | [REDACTED | [REDACTED | [REDACTED | [REDACTED |

# 3. KEY PARTIES

## 3.1 BORROWER

The Borrower is Georgia, represented by the MOF. An overview of the Borrower's creditworthiness is presented in Section 5.1. The Client and the Implementing Agency is the MDF, fully owned by the MRDI.

## 3.2 MDF

The loan will be on-lent to the MDF, a state PIU responsible for implementing and monitoring infrastructure projects. The MDF was established in 1997 by the GOG under the MRDI. The MDF's objective is to strengthen the institutional and financial capacity of local government units by investing financial resources in local infrastructure and services. The MDF cooperates with the IFIs operating in Georgia and acts as a PIU for many IFI funded projects, including the Bank's Kobuleti Wastewater project, Georgia Solid Waste Management Project and Georgia Urban Transport Enhancement Programme. The MDF has a Supervisory Board approved by the GOG and is managed by the MRDI. The MDF employs approximately 140 people, including procurement specialists, engineers, finance specialists and lawyers.

# 4. MARKET CONTEXT

Georgia's energy intensity is about 30 per cent higher than the EU average. The country imports over two thirds of its primary energy from neighbouring countries. Electricity production in Georgia relies mainly on hydro resources. Furthermore, an important energy source for some buildings is domestic firewood, which considered to lead to deforestation[7].

The energy performance of Georgian building stock is very low due to its age, construction standards and limited renovation efforts. The lack of energy performance regulations and limited availability of EE materials and services have further contributed to high energy consumption and under-heating of building stock. [REDACTED].

An assessment of public building inventory determined that 65 per cent of all public buildings were built before 1990 and are often characterised by deteriorated building structure through a lack of systematic maintenance. Since 2010 less than seven per cent of the total public building stock has been completely renovated / rebuilt / refurbished or newly built, underlining the need to increase wide ranging building renovation efforts. In schools, for example, energy demand typically ranges between 140 and 280 kWh/m2 per year, which is significantly above the energy performance benchmarks in comparable climate conditions. Low energy performance is further exacerbated by the fact that more than 50 per cent of public buildings maintain indoor temperatures below minimum comfort levels. This, in turn, affects the health and safety of building occupants. [REDACTED].

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7 According to the Food and Agriculture Organisation in the last thirty years, forest cover has been considerably reduced, one reason being illegal firewood harvesting.

The preliminary building inventory includes approximately 4,000 public buildings (around 75 per cent of the stock) of which 68 per cent belong to the education sector. The MES[8] owns the schools, which are a primary target for this Project. Energy and maintenance costs are covered by the MES's[9] budget. [REDACTED].

The Project builds on strong donor assistance including EBRD's support for the NEEAP and EE law to support the adoption of energy efficiency regulations and will scale up sector investments. Thus, the Project will create a strong environment for developing technological and material value chain as well as building the capacity of local construction companies and labour force.

# 5. FINANCIAL / ECONOMIC ANALYSIS

## 5.1 SOVEREIGN ASSESSMENT

[REDACTED]. In September 2021, Moody's confirmed Government of Georgia's rating at 'Ba2' with stable outlook. In August 2021, Fitch affirmed Georgia's Long-Term Foreign-Currency Issuer Default Rating at 'BB'[10] and revised the outlook from negative to stable. Standard & Poor's affirmed their long-term foreign and local currency sovereign credit ratings of the Government of Georgia at 'BB/B' with negative outlook in August 2021. [REDACTED].

## 5.2 ECONOMIC ANALYSIS

[REDACTED]

## 5.3 SENSITIVITY ANALYSIS

[REDACTED]

## 5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

# 6. OTHER KEY CONSIDERATIONS

## 6.1 ENVIRONMENT

The Project is categorised B (2014 ESP). The ESDD comprised of an audit carried out by independent consultants (including a site visit of a sample of 24 buildings). The findings of the ESDD were that the MDF had some elements of environmental and social management in place and complies with national legislation. The Project consists of implementing EE measures in up to 200 public buildings (mainly existing schools). The Project's building renovation will include various EE and renewable energy measures (e.g. improving building envelopes, installing more efficient heating, ventilation, lighting and air conditioning systems) and can, to a limited extent, include auxiliary works to enhance the buildings' structural integrity and extend their lifetime

8 Formerly known as the Ministry of Education, Science, Culture and Sport of Georgia.
9 Formerly known as the Ministry of Education, Science, Culture and Sport of Georgia.
10 This information was accurate as at the date of preparation of the document, but has changed, and may change further.

(partial demolition and reconstruction). All boilers to be purchased within the Project will be in line with EU Directives in relation to air emissions. The Project is expected to result in $CO_2$ reductions of 13,333 tonnes per year and energy savings of 253,631 GJ per year.

The MDF has good organisational capacity relating to environmental and social management. The MDF does not have an Environmental and Social ("E&S") Policy, nor does it operate an Environmental, Health, Safety and Social Management System; however, the MDF does develop the necessary E&S processes on a project-by-project basis. Overall, there is currently a good level of occupational health and safety systems and processes at MDF. For each building or a batch of buildings, a site specific Environmental and Social Management Plan will be prepared by the Design Consultant, for approval by the MDF. It will be included in the tender documentation and obligatory for civil works contractors to implement. Employees of the MDF are free to establish and join trade unions. Formal employment contracts follow the Labour Code of Georgia. No grievance mechanism is currently in existence for MDF employees. The ESAP requires that (i) a Project-specific HR Policy is developed (including grievance mechanism) as no formal corporate policy is available; (ii) a Gender Action Plan is developed, which will focus on promoting women's employment in EE and addressing gender issues with regards to EE improvements in public buildings; (iii) an asbestos survey is conducted at the proposed building sites prior to the commencement of works; and that (iv) the Design Consultant submits a fire safety report to the MDF on the thermal insulation material to be used on the Project, confirming its fire performance classification as prescribed to national standards.

Schools may need to be temporarily relocated whilst construction is ongoing. In the case of schools requiring significant reconstruction work including expansion, land may need to be acquired. In that case, the MDF will prepare a Land Acquisition and Resettlement Action Plan. Some of the buildings may be listed as protected under national law; therefore, the Design Consultant will cross-reference the 200 selected public buildings with the list of protected buildings of Georgia and will gain the necessary permits from the National Agency for Cultural Heritage Preservation of Georgia if needed. A Stakeholder Engagement Plan is being developed and includes engagement with the buildings' representatives. The SEP will have to be finalised and published by the MDF before signing. The MDF operates a previously established Grievance Redress Mechanism in-line with international best practice.

The ESAP has been agreed with the MDF. The Bank will monitor the Project through annual environmental and social reports provided by the MDF, and site visits if necessary.

## 6.2 INTEGRITY

Integrity due diligence was undertaken on the MDF's senior management. The review did not identify any material integrity issues and therefore it was concluded that this Project does not pose an unacceptable reputational risk to the Bank.

All actions required by the 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.

## 6.3 CONCESSIONAL FINANCE

The investment will be co-financed by an investment grant of up to EUR 10 million from the EU NIP. The use of concessional finance will improve the economic feasibility of the EE investments. [REDACTED].

# ANNEXES TO OPERATION REPORT

| | |
|---|---|
| ANNEX 1 | Project Implementation and Procurement Plan |
| ANNEX 2 | Transition Impact Scoring Chart |
| ANNEX 3 | Green Assessments |

# ANNEX 1 - PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

[REDACTED]. The Client, being the MDF as the PIU for the Project, has a positive track-record of project implementation with the EBRD that spans multiple years. In addition, it has previously worked as a PIU for other IFIs.

The Client's capacity was assessed as part of the due diligence. There is a dedicated procurement unit within the MDF, as well as various technical services. [REDACTED]. The Project's CapEx component will consist of a number of works contracts, based on the FIDIC Red Book (and Green book in case of very small scale packages) for rehabilitation of public buildings (mostly schools) with the intent of improving their energy efficiency. [REDACTED].

**Procurement arrangements:**
The proposed operation is classified as public sector for procurement purposes.
All procurement will follow the open tendering / competitive selection procedures, without any derogation from the EBRD's PP&R, using the latest available standard document templates. All procurement procedures will be carried out through the EBRD Client E-Procurement Portal ("ECEPP"). All contracts will be subject to prior review by the Bank in accordance with the procedures set out in the PP&R. Disbursement under the contracts will be made directly to the contractors and consultants as well as using the SA as described above. [REDACTED].

The enclosed Procurement Plan provides the details of the planned investments and TC assignments. Dates are subject to change depending on the dates of loan signing. [REDACTED].

# ANNEX 2 - TRANSITION IMPACT SCORING CHART

**Score for primary transition quality**

Quality: Green

Component: Mitigation

Quality average score: 70.0

**Score for secondary transition quality**

Quality: Well-Governed

Component: National-level governance

Quality average score: 57.5

**ATQ adjustment**

Country: Georgia

ATQ adjustment: Mitigation: 0.0%

**Adjusted Quality score:** 70.0

**ATQ adjustment**

Country: Georgia

ATQ adjustment: National-level governance: -4.0%

**Adjusted Quality score:** 55.2

**Weighted TI score***

**Base TI score (ATQ-adjusted): 66.3**

**Adjustment for Country Strategies**

Adjustment: 2.0% – Strategic project alignment

CS **Adjusted score:** 67.5

**Final TI score**

**Final TI score: 68**

# ANNEX 3 - GREEN ASSESSMENTS

## Introduction

The Project targets the energy efficient renovation of up to 200 public buildings across Georgia. The renovation will improve energy performance of targeted buildings, leading to 51 per cent energy savings and significant CO2 emission reduction. The upgrade of the existing buildings will enhance the sustainability and lifetime, supporting the decarbonisation of the sector and contributing to reaching the country's emission reduction target. The Project is considered aligned with Paris Agreement.

The Project pre-dates the EBRD's commitment to assess against the goals of the Paris Agreement. While not formally required, the analysis summarized in this annex has been undertaken, and the Project has been assessed as aligned with both the mitigation and adaptation goals of the Paris Agreement. The GET share of the Project is 100 per cent, with details provided below.

## Paris alignment assessment

The Project is part of the MDB positive list (electricity transmission and distribution, including energy access, energy storage and demand-side management). It will reduce energy consumption of existing buildings by more than 30 per cent, which is in line with the criteria for "substantial contribution to climate change mitigation" of the EU Taxonomy, which is considered a reference for Paris alignment.

The Project is highly diversified with over 200 locations across the country and deemed not significantly exposed to physical climate risks and is considered aligned with the adaptation goals of the Paris Agreement. The Project is also conclusive with relevant national climate resilience policy (NDC).

## GET attribution

The GET share is 100 per cent. The Project finances the energy efficiency renovation of up to 200 public buildings, the majority of which are schools. The energy efficiency building renovation will include among others improved thermal insulation for the building envelope, high-energy efficiency windows and doors, LED lighting, efficient and controllable heating system and associated building improvements. Following environmental benefits have been determined:

- Energy savings of 51 per cent have been projected [REDACTED].
- CO2 emission reduction [REDACTED] have been projected.