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

Approved by the Board of Directors on 11 January 2023[1]

GEORGIA

GRCF2 W1 - TBILISI METRO MODERNISATION

[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.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CNG	Compressed Natural Gas
CO2	Carbon Dioxide
CRO	Climate Resilience Output
D&B	Design and Build
EBRD	European Bank for Reconstruction and Development
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
FS	Feasibility Study
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
NBG	National Bank of Georgia
NDC	Nationally Determined Contributions
PIA	Project Implementation Adviser
PIU	Project Implementation Unit
PM	Particle Matter
PPR	Procurement Policies and Rules
PSC	Public Service Contract
SDG	Sustainable Development Goals
SSF	Shareholder Special Fund
TC	Technical Co-operation
ToR	Terms of Reference
TUDA	Transport and Urban Development Agency
VAT	Value Added Tax

CURRENCY CONVERSION

EUR / GEL[2]	**2019**	**2020**	**2021**
Annual average	**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 of up to EUR 50.6 million [REDACTED]. The loan will be on-lent to the City of Tbilisi for the benefit of the Tbilisi Transport Company. The Bank's loan will be co-financed by an investment grant of up to EUR 5 million from the Green Climate Fund ("GCF").

The operation will increase the climate resilience of the metro system by financing the upgrade and rehabilitation of up to 12 metro stations out of 23 in Tbilisi (the "Project"). Most of these stations became operational in 1966 and have not been rehabilitated since then, hence, the Project will address the urgent infrastructure investment needs. The Project is a follow-on investment and the first climate change adaptation project under Tbilisi's Green City Action Plan. The Project addresses the City's priority environmental challenges of resilience and air pollution. 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 its transport sector by encouraging a shift to public transport systems, as well as support to develop and introduce improved asset management practices. The Green Economy Transition ("GET") share of the Project is 100 per cent.

Technical Cooperation ("TC") support for the preparation of the Project was financed by the EBRD Shareholder Special Fund ("SSF"). Post-signing TCs to assist with the Project implementation support and development of Asset Management Plan are proposed to be funded by an international donor and/or the SSF.

I am satisfied that the operation is consistent with the Bank's Strategic and Capital Framework, the Municipal and Environmental Infrastructure Sector Strategy, the Country Strategy for Georgia, 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 - GrCF2 W1 - Tbilisi Metro Modernisation - DTM 52586 Framework: Georgia - Green Cities 2 – Window I - DTM 50440	
Transaction / Board Decision	Board approval[3] is sought for a sovereign loan of up to EUR 50.6 million, [REDACTED], in favour of Georgia to finance the upgrade and rehabilitation of up to 12 metro stations out of 23 stations. The proceeds of the sovereign loan are to be on-lent to the City of Tbilisi for the benefit of the Tbilisi Transport Company. [REDACTED]. The proposed investment will address Tbilisi's priority environmental challenges as identified by the Green City Action Plan, which was approved by the City in September 2017. The Project is a follow-on investment proposed under Green Cities Framework 2 – Window I.
Client	Georgia as the Borrower.
Main Elements of the Proposal	<u>Transition impact</u>: • *Green* – The Project will improve the reliability, safety and efficiency of public transport by encouraging a modal shift from private to public transport, and thus, mitigating the impacts of the City's public transport sector on the environment. It will also improve City's resilience to climate-related events, such as flooding. • *Well-governed* – The Project will support the development and introduction of an Asset Management Plan, aimed to improve asset management practices in the Company. <u>Additionality:</u> • The Project will be another step for the City to implement the GCAP and it is the first investment targeting climate change adaptation. • 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 the policy dialogue on the application of enhanced standards. • The Bank's experience, innovation, knowledge and capabilities are material to the timely realisation of the Project's objectives. • The Project will promote higher gender and economic inclusion standards. <u>Sound banking</u>: The transaction is a sovereign loan. The Bank's Standard Terms and Conditions apply. [REDACTED].
Key Risks	• Georgia public debt sustainability is expected to be preserved in the medium term. The country's sovereign credit rating stands at BB with Stable outlook from Fitch, BB with Stable outlook from S&P and Ba2 with Negative outlook from Moody's. • 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 Strategic and Capital Framework, the Municipal and Environmental Infrastructure Sector Strategy, the Country Strategy for Georgia, the 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.

ADDITIONAL SUMMARY TERMS FACTSHEET

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

EBRD Transaction	A sovereign loan of up to EUR 50.6 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", the "Client" or "TTC"), a municipally owned company which operates buses, the metro system and cable cars in Tbilisi. The loan will be co-financed by an investment grant of up to EUR 5 million from the GCF. [REDACTED].
Existing Exposure	**Sovereign exposure**: The total amount of sovereign portfolio stands at EUR 467.0 million [REDACTED]: (DTM numbers: 4304; 36538; 37560; 37801; 39579; 40019; 45181; 45956; 47166; 47582; 48098; 48104; 48365; 49649; 50271; 50842; 51145; 51207; 51392; 51422; 51438; 52565; 52577; 52825). **The City:** EUR 240.9 million[4] [REDACTED].
Maturity / Exit / Repayment	Eighteen-year maturity. [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	The proposed EBRD loan will finance the rehabilitation of up to 12 metro stations in the City. This is part of a broader programme aiming to support the City in reforming its management of public transport by financing the renewal of the bus and metro systems and network restructuring. *Monitoring* will be performed by reviewing periodic Project progress reports, Annual Environmental and Social Reports ("AESR"), and other documentary evidence provided by the Company and consultants, as well as monitoring visits. *Use of proceeds controls and disbursements*: all project components will be procured in accordance with the EBRD Procurement Policies and Rules ("PP&R"). Direct payments will be made by the Bank to contractors and consultants upon receipt of signed contracts and documentary evidence confirming the fulfilment of respective contractual obligations, including the certification by the supervision engineer as applicable. In addition, the procurement and related implementation will be supported by international, independent consultants ensuring overall compliance, assuring high standards and timely delivery.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	• Borrower: Georgia, represented by the Ministry of Finance; • Beneficiaries: the Company, party to a Project Implementation Agreement and the City, party to a Project Support Agreement.
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan.
Other material agreements	• Loan Agreement between the Bank and the Borrower; • [REDACTED].
Associated Donor Funded TC and co-investment grants/concessional finance	**A. Technical Cooperation (TC)** *Pre-Signing:* • **TC 1: Feasibility study.** The cost of the assignment is EUR 460,060, financed by the SSF.

[4] This relates to the sovereign loans to Georgia on-lent to the City: (i) DTM 47166, Tbilisi Bus Project (EUR 27 million); (ii) DTM 47582, GrCF – Tbilisi Solid Waste Project (EUR 15 million); (iii) DTM 51207, GrCF2 W2 - Tbilisi Bus Extension (EUR 80 million); (iv) DTM 51392, GrCF2 W1 - Tbilisi Metro Project (EUR 50 million); (v) DTM 52825, GrCF2 W2 – Tbilisi Solid Waste Extension (EUR 3.03 million); (vi) DTM 52577, Tbilisi Municipal Services (EUR 9.6 million); and (vii) DTM 52565, GrCF2 W2 - Tbilisi Bus Phase III (EUR 70 million).

	Post-Signing: • **TC 2: Procurement Support** to assist the Company to select the Design Consultant (loan funded) and the Project Implementation Support consultant (TC3). The estimated cost of the assignment is up to EUR 74,900 proposed to be financed by an international donor and/or the SSF. • **TC 3: Project Implementation Support** to assist the Company to review design and tender documents, review of the tender evaluation report, contract finalisation and signature, as well as overall Project implementation and supervision. The total estimated cost of the assignment is up to EUR 2,300,000, [REDACTED]. • **TC 4**: **Development of the Asset Management Plan** to assist the Company to improve the asset management practices, analysis of options for generating non-fare revenues, and develop and monitor certain Key Performance Indicators. The estimated cost of the assignment is up to EUR 450,000, proposed to be financed by an international donor and/or the SSF. [REDACTED]. **B. Co-investment grants / Concessional Finance (Non-TC)** The Project will be co-financed by an investment grant of up to EUR 5 million from the GCF.

[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 I [REDACTED]. Tbilisi's GCAP identified a range of priority environmental challenges, as well as the investment and policy actions across multiple sectors, including transport, required to address these challenges. The City is actively working on the implementation of more than 89 per cent of GCAP measures. The Project's objective is to improve the resilience, reliability, safety and efficiency of public transport, making it compatible with the GET Approach and consistent with the ambitions of the GrCF2.

Tbilisi's GCAP identifies climate related flood risk as a priority environmental challenge and a main area of concern for the City. Tbilisi is particularly susceptible to flooding, both from the Mtkvari river and from surface water flowing down from the nearby hills during heavy rain. In 2015, it suffered from sudden and destructive flash floods following heavy rainfall over the Vere river. The flooding displaced families, resulted in casualties and a World Bank and UNDP[5] study estimated USD 24.3 million in physical damage with the transportation sector receiving the most damage and financial losses. The same study estimated a total need of USD 118 million for a full recovery, with the transportation sector being responsible for 28 per cent (i.e. USD 33.5 million). Tbilisi aims to improve its resilience to flooding and other climate risks through investment in its infrastructure including the metro system.

In addition, Tbilisi's GCAP also indicated that air pollution is one of the biggest environmental concerns with data on Particle Matter2.5 ("PM") 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 and air quality. Following the GCAP's identified need to improve public transport through an expanded low-emission public transport system, the EBRD has assisted Tbilisi in various initiatives in the public transport sector. This includes reforming its public transport system by financing the bus fleet renewal, the rehabilitation of the metro system, including new metro cars and refurbishing metro stations, rehabilitation of bus and metro depots and the optimisation of public transport network.

The Project is expected to substantially improve resilience and quality of public transport for the City's growing population. By providing the needed rehabilitation of the metro stations, the Project is expected to promote growth in ridership, and reduce downtime due to climate-related flood events, while creating a minimum impact on the current services during construction, i.e. through carrying out the works during non-service hours and using modern engineering techniques to avoid full-scale shutdown to the extent possible. This will foster the reduction of Green House Gases ("GHG") and

[5] https://www.gfdrr.org/sites/default/files/publication/pda-2015-tbilisi.pdf

air pollutant emissions from transport as well as reduce noise pollution. It will thus enable the provision of safe, reliable and environment friendly transportation for Tbilisi's population. Please refer to Annex 2 for the Green Assessment Summary.

Moreover, the Project is in line with the City's vision for the transport sector, as improving the public transport uptake is an integral policy pillar.

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)"*. The Bank's Country Strategy for Georgia notes that "*the Bank will engage in promoting energy efficiency and sustainability in the municipal sector*".

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. This Project is also consistent with Georgia's updated Nationally Determined Contributions ("NDCs") under the Paris Agreement. In its updated NDCs, Georgia is fully committed to an unconditional limiting target of 35 per cent below the 1990 level of its domestic total greenhouse gas emissions by 2030. The updated NDCs of Georgia set the 2030 Climate Change Strategy and 2020-2023 Action Plan for the determination of mitigation measures contributing to the achievement of unconditional and conditional commitments and mitigation targets. It also intends to facilitate measures to support the reduction of losses and damages caused by extreme weather events under the country's adaptation targets and the Project serves this purpose. Specifically, this Project is consistent with Objective 2.3 of Goal 2 (transport sector), which is to promote non-motorized means of mobility and public transport. Under this objective, the Georgian NDCs and the Action Plan envisage an increase in public transport upgrade. This Project also contributes to a host of UN Sustainable Development Goals ("SDG"), namely: SDG 3. Good Health and Well-being, SDG 5: Gender Equality, 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 aimed at to identifying environmental challenges, facilitate better coordination and buy-in among stakeholders and help 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 its GCAP. To date 89 per cent of the actions identified under its GCAP are 'under implementation'. This Project will be the City's eighth follow-on investment and the first adaptation project, making Tbilisi the Green City with the highest number of follow-on investments to date. Please refer to Annex 3 for an overview of EBRD Green Cities.

The Project will primarily help to promote the **Green** transition quality by encouraging a modal shift to public transport systems and thus, mitigating the impacts of the City's transport sector on the environment by reducing air pollution and GHG emissions. The investment will also lead to energy efficiency improvements in the stations following rehabilitation of electro mechanic systems such as ventilation, drainage and lighting, as well as escalators. Through the improvement of the drainage system, the Project will reduce exposure to climate risks especially river and pluvial as well as enhance climate resilience of the metro network. The Project will deliver both mitigation and adaptation finance. The Project will also support the **Well-governed** objective through establishing and implementing improved asset management practices.

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 and promoting sustainable urban transport development 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 Tbilisi's GCAP and forms part of a broader programme aiming to assist the City in its implementation, and provides support to one of the key priority directions to reduce transport related environmental impacts and promote a modal shift to public transport systems.

Additionality sources	**Evidence 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. 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.	There is a 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].
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.	The Project will achieve reductions in Carbon Dioxide ("CO_2") emissions [REDACTED], as well as PM [REDACTED] and NOx [REDACTED]. The metro system is exposed to the physical transition risks due to outdated pumping equipment. Replacing

EBRD helps the client to mitigate **physical transition risks** and take climate action, such as to identify and manage physical climate risks and build resilience to them.	[REDACTED] old pumps and rehabilitating drainage system will help cope with flooding events. The drainage system together with the pumps will be reliable, energy efficient and uninterrupted. It will also guarantee the protection of the metro from groundwater, mitigating potential physical risks, as well as reducing potential downtime of the metro.
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 **best international procurement standards**. Client seeks/makes use of EBRD expertise on **higher inclusion and gender standards and/or equal opportunities action plans**.	EBRD transition impact, environmental and social related conditionalities go far beyond what commercial funding sources would require, including procurement procedures, reform component (adoption of the Asset Management Plan) and a clear link to the green economy. The Project will leverage the results achieved through EBRD's previous projects in the urban transport sector in Tbilisi. The Project will build on the fruitful cooperation between TTC and EBRD to promote equal opportunity in terms of access for women to traditionally male dominated jobs, and access for all to safe public transportation. As part of the development of the Asset Management Plan for the Company, the Bank will introduce training to TTC's employees on gender-responsive and inclusive procurement practices, will also ensure that inclusive HR practices inform the potential development of new asset management activities (including the potential creation of Asset Management Department), and women's participation will be promoted in new capacity building programme training [REDACTED].
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.**	The EBRD has extensive urban transport sector knowledge and a 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/ High	[REDACTED]
Implementation Risk	High/High	The City and the Company have successfully implemented a number of IFI-funded projects, including with the EBRD. [REDACTED] the Bank's assessment of the implementation risk is "Moderate-High". The Company will be supported by experienced international consultants [REDACTED]. The detailed analysis of the Project's implementation risk assessment is provided in Annex 1.
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. The risk is partly mitigated by the strong policy framework and effective institutions with a track record of solid macroeconomic management and large share of medium- and long-term government borrowings, mitigating the refinancing risks.
Macroeconomic Risk	Medium/Medium	Adverse political developments in regional countries may impact Georgia's economic development. The risk is partly mitigated by Georgia's track record to manage such risks. In June 2022, to mitigate uncertainties brought by the war on Ukraine, the authorities secured USD 280 million precautionary IMF Stand-By Agreement. The approval of IMF funds would help Georgia maintain and further enhance macroeconomic and financial stability amidst back-to-back shocks and achieve stronger and more inclusive growth.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	*Monitoring benchmarks*	*Implementation timing*
- Good operational performance - On-time project implementation	- Development and implementation of an Asset Management Plan - 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)**	**TC-related?**
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:** [REDACTED] 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 [REDACTED] GCAPs.	Tbilisi's GCAP approved by the City in September 2017, including an implementation and monitoring strategy.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	**Strong follow-on support:** 50 per cent of transactions (under GrCF2 and future extensions) are follow-on investment addressing priority environmental challenges identified in the GCAPs.	The Project is the City's eighth follow-on investment from the GCAP, which addresses the priority challenge of air pollution and climate change adaptation through encouraging a shift to public transport systems and improving the resilience to flood risks respectively.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	**Multiple green investment:** Each participating city makes [REDACTED]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 meets the eligibility criteria for both mitigation and adaptation investments under GrCF2. The Project will achieve reductions of [REDACTED]CO_2 [REDACTED]. The Project also has a Climate Resilience Benefit ratio [REDACTED].	[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, [REDACTED] (including both investment and well-defined policy measures).	The Project addresses the GCAP target of mitigating the impacts of the City's transport sector on the environment.	[REDACTED]	[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 priority environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities.	While the Project addresses the City's priority needs of reducing the environmental impacts of the City's transport sector, as well as improving the resilience of the infrastructure, the relevant environmental improvements within the respective cities will not be monitored at sub-project level.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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)**	**TC-related?**
2.1	Number of corporate governance improvements Commitment to Corporate Governance	Corporate governance improved: Commitment to Corporate Governance	Develop and implement a well-defined Corporate Governance Action Plan that addresses most of the corporate governance issues identified in the company.	Asset Management Plan to be developed and implemented for the Company to improve its asset management practices.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Objective	FW level aggregate indicator	Indicator (sub-Project)	Details (subproject)	Baseline (Sub-Project)	Target (Sub-Project)	Due date (Sub-Project)	TC-related?
Gender SMART 3.1	Number of stakeholders with practices improved (inclusive HR policies and practices, inclusive procurement practices)	Practices of the relevant stakeholder improved (skills development)	Training to be introduced to the Company's employees on gender-responsive and inclusive procurement practices and inclusive HR practices to inform the potential development of new asset management activities (including the potential creation of Asset Management Department). Women's participation to be promoted in new capacity building programme training [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Project Monitoring Indicators

Indicator	Projected Impact	Implementation Timing
Green		
Total Population benefitting from improved public transport services (individuals)	[REDACTED]	[REDACTED]
Annual reduction in tonnes of CO_2 equivalent savings (tonnes CO_2 eq / yr)	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / CLIENT

The Borrower is Georgia, represented by the Ministry of Finance. In August 2022, Fitch retained Georgia's Long-Term Foreign-Currency Issuer Default Rating at 'BB' with stable outlook. In July 2022, Moody's maintained Georgia's rating at 'Ba2 Negative', [REDACTED]. In August 2022, Standard & Poor's affirmed its long-term foreign currency sovereign credit ratings of Georgia at 'BB' and a stable outlook. [REDACTED]. Favourable institutional arrangements and business environment indicators compared with peers, a track record of macroeconomic resilience against regional shocks, robust growth rates and consistent and credible policy framework are considered as credit strengths for Georgia.

3.2 BENEFICIARIES

The City: Historically, most of the financing for the City came from the central government. The provision of targeted state support in the form of subsidies is common practice for earmarked activities and selected municipal services, such as road rehabilitation, regular maintenance of municipal infrastructure and other priority investment projects. In 2019, to make municipalities more self-resilient, the Government changed its approach on the distribution of taxes to municipalities. Based on the new regulations, 19 per cent of VAT receipts are distributed to municipalities, out of which 50 per cent is allocated to Tbilisi, due to its size and importance in the overall economy. Generally, the City's revenue consists of taxes, state (central government) transfers and own (non-tax) revenues from rent, privatisation, licenses, etc. [REDACTED]. In 2021, total revenue was GEL 1,146.9 million (EUR 327.3 million equivalent), which was a 32 per cent increase year-on-year ("yoy"). [REDACTED].

The Company: The Company's main sources of revenue are from passenger transportation, namely: (i) buses; (ii) metro; and (iii) cableway. [REDACTED].

The Project is sovereign, thus, the risk is based on the sovereign assessment. Please refer to Section 5.1 for further details.

4. MARKET CONTEXT

Tbilisi has a population of 1.2 million, which is one third of the total population of Georgia. It produces more than 50 per cent of the country's GDP. It is the economic, cultural and political centre of the country. The City's metro and bus network is operated by the Company, which is wholly owned by the City. The Company (formerly Tbilisi Metro Ltd.) was founded in 1966, when the first line of the Tbilisi metro was opened. In 2009 municipal buses and all related property were transferred to the Company, and subsequently the newly constructed Rike-Narikala cable way.

The organisation of public transport, including traffic management and supervision of public transport including minibuses, is the responsibility of the Transport and Urban Development Agency ("TUDA"). The relations between the Company and TUDA are governed by the local legislation, as well as the Company's charter and Public Service Contract, signed in 2021 with the Bank's support. The metro and bus fares are approved and regulated by the City Council, while minibus fares are set by the private operators with an advance notification to the City.

As a result of the Bank's funded technical support, the City introduced an integrated tariff system for the public transport network. In February 2022, the City announced changes in its fare policy and structure by introducing daily, weekly, monthly and annual passes integrated, including buses, metro and minibuses. Before that, the fare for bus and metro was GEL 0.5 (EUR 0.2 equivalent) and for minibuses GEL 0.8 (EUR 0.3 equivalent) per ride. In addition, a discounted fare was effective for certain social groups, including students, elderly, etc. Importantly, regardless of the change in fare policy, the users with discounted fare categories maintained the same benefits as before.

The metro is the backbone of Tbilisi's urban transport system. In spite of the continued efforts of the Company to keep maintenance activities on track, components of the metro systems are worn out due to decades of under-investment. With the proposed investment, the attractiveness and reliability of the metro will be enhanced, which in turn will encourage passengers to continue use of the public transport, preventing a shift to minibuses and cars, and the safety of the metro operations will improve.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 SOVEREIGN ASSESSMENT

[REDACTED]

5.2 ECONOMIC ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Project has been Categorised B under the Environmental and Social Policy (2019). Risks and impacts associated with the Project have been confirmed to be site specific, readily identifiable and can be addressed by adoption of appropriate mitigation measures. Environmental and Social Due Diligence ("ESDD") has been undertaken as part of the Feasibility Study ("FS") and has identified risks and impacts that may be associated with the programme of modernisation and rehabilitation works. However, as the FS presents a preliminary design of works only at this stage, further refinement of the Environmental and Social ("E&S") assessment and associated mitigation measures will be required to be developed in line with the Project cycle.

Construction is related to the risks and impacts associated with the work of construction contractor such as noise, dust, vibration, hazardous materials (including asbestos) and worker occupational safety and the interface with the public. This will require careful management through the development of an Environmental and Social Management System and associated E&S Management Plans, particularly the Contractor Management Plan and a comprehensive Stakeholder Engagement Plan. There is also the potential for temporary business disruption to small scale metro station vendors located in areas that will be subject to rehabilitation works. It is expected that these impacts can be managed through appropriate consultation and mitigation measures that are included in the ESAP. At the same time, the ESAP also requires these impacts to be further assessed during detailed design and, if deemed necessary, a Livelihood Restoration Plan to be developed in line with the EBRD's requirements during the subsequent phases of the Project, prior to implementation. For three stations, further assessment of vibration will be required to verify that there will be no damage to the integrity of the nearby buildings.

The ESAP has been developed and includes the requirements to fully quantify any residual risks, develop and implement all required management plans as mitigation measures. A Project Implementation Unit ("PIU") will be established for the programme of works and the ESAP requires the PIU to develop a comprehensive set of plans and adequately supervise the construction works and contractor(s) prior to any impacts occurring. Such safeguards have been included in the design phase documents and the Bank will closely monitor the adoption of the ESAP by the PIU and the subsequent phases of the Project throughout.

6.2 INTEGRITY

In conjunction with OCCO, an updated integrity due diligence was undertaken on Tbilisi City Administration, the Company, 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. The City and the Company are existing clients of the Bank and the experience to date has been positive.

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.

6.3 CONCESSIONAL FINANCE

The investment will be co-financed by a GCF adaptation investment grant of EUR 5 million. This will finance the work that will increase metro's resilience to climate change related flood risk. This climate resilience related work includes: (i) rehabilitation works regarding structural, tunnelling and drainage components of stations; (ii) station building refurbishment works (mainly waterproofing and piping); and (iii) drainage rehabilitation works. It will help to close the funding gap that was caused due to increased costs amid inclusion of the above adaptation measures. [REDACTED].

ANNEXES TO OPERATION REPORT

ANNEX 1	Project Implementation and Procurement Plan
ANNEX 2	Green Assessment Summary
ANNEX 3	Implementation Progress on GrCF / GrCF2

ANNEX 1 – PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

Procurement classification – *Public [sovereign]*

[REDACTED]. The Company and the City have experience of implementing infrastructure projects financed by IFIs. In particular the Company has recent experience in implementing EBRD financed Tbilisi Bus Extension and Tbilisi Metro projects. There are dedicated procurement and engineering units that will work jointly with the supporting consultants to prepare the employer's requirements, technical documents and managing the tender process.

The Company is committed to keep the current composition of the PIU, which is currently implementing ongoing EBRD projects. [REDACTED]. The Project consists of a single capex contract for rehabilitation of 12 metro stations under the Design & Build approach using FIDIC Yellow Book as a basis. [REDACTED].

Project implementation arrangements:

Considering the complexity of the Project, the following implementation arrangements are proposed:

Step 1 – Project preparation:
A dedicated design consultant (under Conceptual design and procurement support TC) will be hired who will review the current feasibility study and will develop a conceptual design and tender documents to rehabilitate the 12 metro stations included in the Project. The same consultant will be responsible to support the Client to procure the contractor through an open, two-stage tender. The design consultant will be best placed to conduct the tender as it will have all the technical knowledge in-house and will be able to conduct meaningful market consultations and clarification meetings with the participants during the tender process. [REDACTED].

In parallel, a dedicated PIU Support and Construction Supervision consultant will be hired to support the Client in Project management, implementation of PIU duties (review of concept designs, review and approval of tender documents, tender evaluation reports etc.) and will act as "the Engineer" under the FIDIC Yellow Book for civil works. In addition, this consultant will be tasked to provide capacity building for the Client and on-the-job training during the supervision process, to ensure that contract management skills are transferred to the PIU team.

Step 2 – Project implementation:
A single Design and Build ("D&B") contractor will be hired under the Project using the FIDIC Yellow Book contract, through an open, two stage tender. The contractor's scope will include rehabilitation of 12 metro stations, including replacement and/or rehabilitation of escalators in several stations. [REDACTED].

Step 3 – Soft components:
The Project also includes a consultancy assignment to support the Client to develop the Asset Management Plan and an analysis for options to develop non-fare revenues.

To support the Client [REDACTED], a Bank-hired procurement support consultant will also be appointed to help the Client in selection of the Conceptual design and procurement support consultant, as well as PIU Support and Construction Supervision consultant.

Procurement arrangements:
All goods, works and services financed from the Bank's loan will be procured following an open tendering procedure in accordance with the requirements of the Bank's Procurement Policies and Rules 2022 ("PPR") 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. In addition, ECEPP reduces several other procurement process related risks, such as the ones emerging during the tender closing, tender opening, submission of the late tenders etc.

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

No exceptions or derogations from the PPR are requested or envisaged.

Additional information:
N/A. [REDACTED].

ANNEX 2 – GREEN ASSESSMENT SUMMARY

<u>Introduction</u>

The Project will rehabilitate up to 12 metro stations of the Tbilisi metro network (out of a total of 23 stations) through energy efficiency and physical risk mitigating measures.

- *The Project is assessed as **aligned** with the goals of the Paris Agreement.*
- *The Project qualifies for **100 per cent GET mitigation, adaptation and environment finance.***
- *The Project is **eligible for EBRD Green Cities** as it meets the criteria for both mitigation and adaptation projects. The Project is also eligible for **<u>adaptation grants under GCF Green Cities</u>** facility (non-reimbursable funds) as it meets the criteria.*

<u>Paris alignment assessment</u>

Alignment with the mitigation goals of the Paris Agreement

- The project/economic activity is **included** in the 'aligned list'.
- Regarding project/economic activity, there are **no** activities included in the 'non-aligned list'.
- Applicable additional or specific conditions associated with the ‘aligned’ project/economic activity **have** been met.

*<u>Conclusion</u>: The Project is assessed as aligned with the mitigation goals of the Paris Agreement (**BB1 aligned**).*

Alignment with the adaptation goals of the Paris Agreement

- The Bank has identified **flooding** as high risk for the Project site. A climate risk and vulnerability assessment was undertaken as part of the technical due diligence and **flood and mass movement** are identified as risks**. The increase in average and extreme temperature** were also identified, but with lower impact on the stations.
- Materiality checks have been undertaken for all identified physical climate hazards and, where necessary, mitigation measures have been incorporated into the Project to ensure the resilience of the assets.
    - <u>Flooding</u> is identified as the risk with the highest impact on the metro stations should an event occur. Both structural and non-structural measures have been identified, that will reduce the impact of flooding events on the stations and on the overall operation of the metro system of Tbilisi.
    - As for the <u>mass movement</u> risk, the Project will comply with anti-seismic regulations and best practices, including to mitigate landslide risk to which Tbilisi is exposed (to this regard, it is worth recalling the 2015 Tbilisi flood and landslide, which caused 19 casualties; the UNDP and World Bank estimated financial requirements for recovery at USD 118 million[6]).

[6] https://documents1.worldbank.org/curated/en/929561510329276686/pdf/121242-WP-P155421-PUBLIC-32p-DRFIGeorgiaDiagnosticWeb.pdf

  - While an extreme heat event risk is not seen material by the consultants, the measures related to the ventilation system will mitigate potential disruption due to heat wave events and increase passengers comfort.
  - As a result, the alignment of the Project with the adaptation goals of the Paris Agreement has been confirmed, and the physical climate risk is considered to be sufficiently mitigated.
- The Project is unlikely to undermine climate resilience of the system in which it operates.

*Conclusion: The Project is assessed as aligned with the adaptation goals of the Paris Agreement (**BB2 aligned**).*

GET attribution

- [REDACTED]
- The main GET impact expected from the investment is the improvement of:
  - *i.* Increased resilience of the metro stations to flooding events (GET Adaptation) [REDACTED].
  - *ii.* Increased energy efficiency of the metro stations (GET Mitigation): The Project is expected to deliver primary energy savings [REDACTED] due to the installation of energy efficient lighting, ventilation and drainage systems, as well as the replacement escalators (either complete replacement with new escalators; or partial, with the replacement of only the electrical drivers). [REDACTED].
  - *iii.* Reduced CO2e emissions (GET Mitigation): Total CO2e savings are [REDACTED] delivered both by reduced energy consumption [REDACTED] and by reduced emissions from passenger cars and buses as a result of increased passenger traffic in the metro system which is responsible for the majority of the total emissions [REDACTED].
  - *iv.* Reduced air pollutants (GET Environment): The Project is expected to deliver annual reduction of NOx [REDACTED]; PM [REDACTED]; and VOC [REDACTED], reduced by reduced emissions from passenger cars and buses as a result of increased passenger traffic in the metro system.
  - *v.* Water savings (GET Environment): Due to degraded structural conditions, the metro tunnels are heavily affected by groundwater ingress which is subsequently pumped out by the drainage system. Once the waterproofing and drainage rehabilitation measures are implemented, it is expected that groundwater ingress will be reduced [REDACTED], which will preserve and avoid the contamination of [REDACTED] groundwater annually.

*Conclusion: The Project is **100 per cent GET**.*

Green Finance Project Monitoring Plan

The green finance project monitoring plan is aligned with the TI benchmarks. The Bank will monitor indicators including an increase in passenger km/year deriving from the modal shift, primary energy consumption (GJ/y); the occurrence of flood events and impacts on the metro stations via the ESAP.

ANNEX 3 – IMPLEMENTATION PROGRESS OF GrCF / GrCF2

From 2016, the GrCF and GrCF2 have mobilised nearly EUR 5 billion in EBRD and donor funding. The 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'. [REDACTED] [I]n October 2018 a new Framework was approved by the Board, GrCF2 [REDACTED].