



European Bank
for Reconstruction and Development

Ajara Solid Waste Project

State Sector Project Assessment

Prepared in line with the EBRD's Access to Information Policy¹

Country	Georgia
Sector	Municipal and Environmental Infrastructure
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Operation Description

The Project consists of a loan of EUR 3 million to Georgia (the "Borrower"), on-lent to the Autonomous Republic of Ajara ("Ajara"), for the benefit of the Ajara Waste Management Company (the "Company", formerly known as Higiена 2009 Limited). The Project is co-financed by the Swedish International Development Co-operation Agency ("Sida") with a SEK 42 million (EUR 4 million) grant for capital expenditure.

The Project aims to improve solid waste management services in the region through construction of an EU-compliant sanitary landfill facility to serve the region of Ajara, located on the Black Sea coast.

Project management is undertaken by the Ministry of Finance and Economy of Ajara (the "Ministry") and the Company, established by Ajara in 2009. The Company was designated as the implementation body for the construction of a new sanitary landfill (according to the EU Directive on landfilling 1999/31/EC) in the Ajara region. Municipalities are responsible for operating the existing dumpsites in their respective areas. The Company will be responsible for closure and subsequent monitoring of the dumpsites.

The Project includes Technical Co-operation ("TC") to support the project implementation and capacity building of the Company.

At Board approval, the Project also anticipated to finance closure of two existing dumpsites. This work – including discussion of closure of an additional dumpsite - is ongoing.

¹ As required by Section IV paragraph 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose information (excluding Confidential information) contained in Operational Performance Assessment (OPA) reports for State Sector Projects selected for extended review, within 60 calendar days after completion of the relevant OPA report.

Relevance

The Project was consistent with:

- *The Bank's Country Strategy for Georgia* which emphasises that “a further priority for many municipalities is to ensure that solid waste management practices are strengthened and related investment undertaken in a manner that complies with European standards”.
- *The Bank's Municipal and Environmental Infrastructure Operations Policy* which states that the transition challenges demonstrate the importance of: promoting the concept of decentralised financing and sustainable and adequately-managed service delivery through demonstration projects even if these are small; cost recovery and commercial efficiency where affordability constraints allow and addressing affordability restrictions by mobilising grant or concessional sources of co-financing and/or introducing better targeted welfare schemes; and increasing absorption capacity by strengthening local authorities and utility companies through extensive technical co-operation.

Design and Structure

In solid waste projects, the common challenge is to provide needed infrastructure improvements and institutional support to achieve operational improvement, all within affordability constraints. Therefore, the Ajara Solid Waste Project combined the loan with an investment grant funded by Sida to maintain affordability while addressing investment needs. Namely, the Project was modelled on a proven approach for similar municipal investments:

- Lack of standalone debt capacity at the municipal level was mitigated by the sovereign structure;
- A small affordable loan was combined with donor investment grant to maintain affordability while addressing investment needs; and
- The Project benefited from extensive technical co-operation to support implementation and target transition (please see below for details of provided TCs).

The Project built on experience and lessons learned from the number of waste management projects undertaken by the Bank in various countries of operations.

Additionality

The Bank's involvement is additional because:

- EBRD Terms: There is limited market for long-term municipal borrowing for local authorities in Georgia. Also, municipalities are subject to various debt service constraints, and Government consent for borrowing is required. By combining its loan with a

capital grant, the Bank created a financing structure within affordability limits.

- EBRD Attributes: At the time of approval, this was the second solid waste project in Georgia with international financing. EBRD's extensive solid waste sector knowledge and ability to structure implementation arrangements were significant during the Project development.
- Conditionalities: EBRD's transition impact, environmental and social related conditionalities go far beyond what commercial funding sources would require, including procurement procedures, sector reform and link to the green economy.

A modern EU-compliant landfill is now constructed, and it was possible with funding provided by EBRD and Sida. While there was a general willingness of the authorities to address identified issues related to the environmental, health and safety management, budgetary constraints would have postponed this priority investment to future.

In addition to the above, if the TCs listed below had not been provided, the Company would not have been able to finalise project implementation and construct a modern sanitary landfill, due to lack of experience in the sector. This was only the second EU-compliant landfill project in the country (after Rustavi Solid Waste project, also funded by EBRD and Sida).

Effectiveness

At approval, the Project aimed to support: (i) establishment of a landfill management company, (ii) TC assistance for capacity building, commercialisation and improved transparency of the Company, (iii) development of a performance-based public service contract, (iv) adoption of the cost recovery principle and tipping fee and (v) potential private sector participation in landfill business.

- (i) The Company was established. It owns and operates the landfill facility.
- (ii) The Company benefited from the Corporate Development TC for capacity building, and improved transparency of the Company.
- (iii) The public service contract has been developed; it is expected to be updated and signed after the new landfill becomes operational.
- (iv) The commitment to adopt the cost recovery principle has been confirmed by the Ministry soon after signing legal agreements. Tipping fees will be introduced once landfill is put into operation.

- (v) The private sector participation in landfill business was eventually not pursued as the Company managing the landfill is owned by the Ajara Government.

Business Results

At the approval stage, the Project anticipated to cover:

- Construction of a new sanitary landfill at Chakvi;
- Construction of a gas extraction system; and
- Closure of two existing landfills.

A new sanitary landfill has now been constructed, and a gas extraction system installed, but at a new location. Upon the request of the Government received in November 2011, the originally selected site had to be changed due to a plan to develop tourism infrastructure in Chakvi. Consequently a new study was launched which identified an alternative site in Tsetskhauri, 35 km North of Batumi. The new ESIA was prepared and published on EBRD's website in November 2015.

Associated Activities

To support implementation, the Project benefited from various post-signing TC assignments in the amount of up to EUR 2.3 million, funded by the Bank, Sida, the Early Transition Countries Fund, and the client. The post-signing TCs covered various directions, including:

Implementation support

- Implementation Support (2010-2013), followed by the Implementation Support Extension (2013-2015), supported the Company in all aspects of the Project implementation. The consultant provided the detailed design documents, the tender documents and the ESIA package for disclosure according to EBRD standards.
- Support in tender and construction supervision (2016-present). Consultant provides support in the remaining PIU support services, including construction supervision.
- Financiers' Monitor (2017-present) consultant assists the Bank in Project monitoring.

Institutional capacity building

- Corporate Development Support Programme (2010-present) assists the Company to identify and implement the necessary corporate, financial and operational improvements.
- Tariff Review (2017). The consultant conducted an independent review of available tariff methodologies in the local market.

Gender and Inclusion

- Gender Equality Assessment (2010). The consultant provided an analysis of gender equality aspects in the solid waste management in Ajara and made recommendations regarding gender mainstreaming in the Project.

Environmental and social performance

- Resettlement Framework and Livelihood Restoration Framework (“R-LRF”) (2015). The new landfill site in Tsetskhlauri required the resettlement of two residential properties located in the sanitary protection zone. There were also potential economic impacts associated with reduced access to grazing and informal agricultural production in the area surrounding the site. Hence, the assignment supported the preparation of an R-LRF, in line with PR5 of EBRD’s Environmental and Social Policy (2008).
- Development of Resettlement Action Plan (RAP) and Livelihood Restoration Plan (LRP) and Support in Implementation (2016-2017). The TC aimed to support the Company in development of the detailed RAP and LRP, and to assist them during implementation of these measures.
- Air Quality and Odour Assessment (2019-2020). Local residents in Tsetskhlauri were concerned that the future landfill would affect them with odour. Therefore, a consultant was hired to carry out a supplementary air quality and odour assessment, and to remedy the potential impacts.

The post-signing TC support was essential to support the client in procurement, implementation, capacity building and adherence to the environmental and social policies.

Efficiency

The project achieved its operational objectives, albeit with delays.

Delays were initially caused by change of the landfill site location and later by change in the procurement strategy. The contract for landfill construction was eventually signed in April 2019 and progressed well. However, works slowed in the course of 2020 due to Covid-19 restrictions. This has further delayed the overall implementation. As of today, works have been mostly completed and payment of final invoices is being discussed between the Company and the contractor. As EBRD loan was fully disbursed, further payments will be covered from the remaining Sida grant.

The Project experienced numerous implementation challenges, so EBRD had to closely monitor project implementation and stay close to the Client. Throughout the whole implementation period (2011-2021), the EBRD maintained a very good relationship with the Ministry and the Company and proved to be a reliable and

trustworthy partner regardless of the situation; practical solutions have always been identified and implemented. Further, EBRD execution made it possible that the Client initiate further follow-up projects with EBRD.

Improvements of the solid waste management system will not end with the construction of the new landfill. The EBRD, the Ministry and the Company continue cooperation to supply movable equipment for landfill operation (to be financed under OPID 52887 GrCF2 W2 - Ajara Solid Waste Phase II), and to close and remedy existing dumpsites according to the EU directives (to be financed under OPID 51871 GrCF2 W1 - Batumi Solid Waste Management²).

The above-mentioned projects are part of a broader programme aiming to assist the country to meet its obligations under the European Union Association Agreement ("EU AA") signed between Georgia and the EU in 2014. Namely, under the EU AA Georgia has undertaken to improve solid waste management in the country, inter alia the use of sanitary landfills, and the closure and remediation of dumpsites is a key obligation. At present, Georgia is implementing several International Financial Institution ("IFI") funded projects to establish EU-compliant regional landfills throughout the country.

The Project and follow up investments are expected to result in significant social and health benefits, and improve the environmental and safety standards by supporting enhanced solid waste management in Ajara. These projects are also aligned with the requirements of the Covenant of Mayors, which Batumi joined in 2011. They are also continuation of the Bank's systematic engagement in Batumi through the EBRD Green Cities and its Green City Action Plan.

Implementation Summary

The Project financed construction of an EU-compliant sanitary landfill facility to serve the Autonomous Republic of Ajara. The Project also provided TC assistance to support the implementation, environmental and social performance and capacity building of the Company.

The Project and its follow up investments (aimed to supply movable equipment for landfill operation and to close and remedy existing dumpsites according to the EU directives) are expected to result in significant social and health benefits, and improve the environmental and safety standards by supporting enhanced solid waste management in Ajara.

² Additional financing needs are the subject of current discussions between the EBRD and Georgian authorities. Any possible project will be subject to standard EBRD review and approval processes.