



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF THE
IRRIGATION AND LAND MARKET DEVELOPMENT PROJECT
APPROVED ON MAY 23, 2014
TO
GEORGIA

WATER

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

GA	Georgian Amelioration Ltd
MEPA	Ministry of Environment Protection and Agriculture
MOM	Management, operation and maintenance
MOU	Memorandum of understanding
MTR	Mid-term review
NAPR	National Agency for Public Registration
PDO	Project development objective
WUO	Water User Organization
WUOSU	Water User Organization Support Unit



BASIC DATA

Product Information

Project ID P133828	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 23-May-2014	Current Closing Date 31-Jul-2019

Organizations

Borrower GEORGIA	Responsible Agency Ministry of Environment Protection and Agriculture, Ministry of Justice
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Project Development Objective (PDO)

Original PDO

The Project Development Objective is to (i) improve delivery of irrigation and drainage services in selected areas and (ii) develop improved policies and procedures as a basis for a national program of land registration.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-54560	23-May-2014	21-Nov-2014	13-Mar-2015	31-Jul-2019	50.00	17.96	27.63

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. The Georgia Irrigation and Land Market Development Project (Cr. 5456-GE, US\$50 million equivalent) was approved by the Board on May 23, 2014. The Project comprises three components: (i) Component 1: Irrigation and Drainage Improvement; (ii) Component 2: Land Market Development; and (iii) Component 3: Project Management. The Project became effective on March 13, 2015 nearly 10 months following its approval. The delay in effectiveness was largely due to a government decision to review implementing agency arrangements following Board approval. The Closing Date of the Project is July 31, 2019. The Project has experienced another 10-12 months of delay in implementation associated with the preparation and implementation of main canal rehabilitation works (Batch 1) under Component 1. Works under Component 2 remain on track and Project Management (Component 3) is deemed responsive, despite earlier delays in implementation (Refer below to component-specific summaries). Financial Management arrangements for the Project, including planning and budgeting, accounting, financial reporting, funds flow, internal control, external audits, and staffing are "Satisfactory" and continue to be acceptable to the Bank. There are neither overdue audits nor Interim Financial Report under the Project. The project has no major outstanding safeguards or fiduciary issues. The Environmental Safeguards are rated as Moderately Satisfactory resulting from construction waste being inappropriately disposed of. The matter has been addressed by project management.

2. A Mid-Term Review (MTR) mission was concluded on August 3, 2017, on the basis of which it became apparent that the PDO indicators will not be achieved by the original July 31, 2019 closing date - neither in terms of volume delivered to schemes (PDO Indicator 1) nor by area provided with improved irrigation (and drainage) services (PDO Indicators 2). Accordingly, the PDO rating was downgraded from Moderately Satisfactory to Moderately Unsatisfactory in the ISR (November 29, 2017).

3. To date, US\$ 17.8 million of the US\$50 million credit have been disbursed (equivalent to 35.6 percent), of which the Client has paid US\$16.04 million. An additional US\$3.37 million have been committed through civil works and other contracts. Major civil works contracts of US\$23.1 million have been earmarked for the rehabilitation of secondary and tertiary irrigation systems (Batch 2), which are currently under preparation. Major disbursements are expected during 2019 and 2020 and as soon as Batch 2 works contract will be in place.

Table 1: Summary information of actual client expenditure.

Component		Original amount	Actual payments made by client	Additional commitments made by clients
		[in million US\$]		
Component 1: Irrigation and Drainage Improvement		45.65	14.14	2.85
Component 2: Land Market Development		2.25	0.93	0.03
Component 3: Project Management		2.1	0.97	0.49
	of which: MEPA	1.95	0.87	0.47
	NAPR	0.15	0.1	0.02
Total		50	16.04	3.37



4. Component 1: Irrigation and Drainage Improvement (US \$45.65 million, of which US\$14.14 million have been spent and US\$16.99 million committed by the client). This component includes two Sub-Components: (i) Sub-Component 1.1 Irrigation and Drainage Rehabilitation and Modernization and (ii) Sub-Component 1.2 Strengthening of Irrigation and Drainage Institutions. Sub-component 1.1 focuses on the rehabilitation and modernization of three (pilot) irrigation schemes, namely Kvemo Samgori, Tbsi-Kumisi, and Zeda Ru of some 20,000 in total. The Sub-component takes a two-stage approach towards achieving its objectives: first, design and works for rehabilitation of off-farm systems including headworks and main canals (Batch 1 works); and second, design and works for rehabilitation of on-farm systems (Batch 2 works at local levels) on the condition that the institutional arrangements for ownership and management of on-farm systems are in place. The PDO indicators relating to Component 1 are as follows (i) Absolute volume of irrigation water supplied to project rehabilitated schemes, and (ii) Area provided with irrigation and drainage services improved. It is clear, that with the two-stage approach taken, PDO indicators can only be partially achieved, unless (i) the irrigation delivery chain is fully rehabilitated and all delivery points between main, secondary and tertiary canal levels are full connected. There is no substantial project achievement on these indicators to date since batch 1 (main system) rehabilitation is still ongoing and batch 2 (local system) has yet to start.
5. Details on progression of Sub-components as summarized as follows:
 - a. Sub-Component 1.1 has suffered prolonged delays in implementation due to procurement delays and weaknesses in designs and bidding documents for Batch 1 works. Ultimately, construction contracts were signed in March 2016 with durations of 22, 18 and 26 months. Soon after works commenced, it became apparent that contract implementation schedules were overly optimistic in that they did not adequately factor in the need to limit construction works to the non-irrigation season between October and April to not disrupt irrigation deliveries from the canals. Corrective measures were taken including an extension of Batch 1 contracts till May 31, 2018; and the recruitment of an International Consultant providing detailed design and construction supervision services. To date, works under all the three contracts are nearing completion. As per March 31, 2018, actual physical completion rates were at 75% at Zeda Ru (Lot 1), 85% at Kvemo Samgori (Lot 2) and 71% at Tbsi-Kumisi (Lot 3). To accelerate progress, the Employer has now taken firm steps towards the contractors. There will be no further extension of the contract completion dates. Instead contractors shall pay liquidated damages to the employer at the rate per day. Preparation and implementation of Batch 2 works have reached a critical stage. An invitation for proposals for Batch 2 design and supervision works is just about to be sent to 6 international consulting firms, which have been short-listed. Batch 2 works involve planning, re-engineering, detailed system design and construction of secondary and tertiary system levels of the three pilot irrigation schemes. The Batch 2 design process will be aligned to the institutional development of water user organizations, which are expected to assume responsibility for the management, operation and maintenance of secondary and tertiary levels, respectively. Water user legislation is expected to pass parliament by Fall 2018. The successful completion and adequate functioning of these systems would require 24 months beyond the current July 31, 2019 closing date.
 - b. Sub-component 1.2 has progressed well. It has defined the government's long-term vision for: (i) national regulation and monitoring of irrigation water delivery including environmental monitoring; (ii) institutional arrangements for on-farm and off-farm irrigation and drainage services; (iii) water pricing and cost recovery; and (iv) rehabilitation and modernization, which was approved on May 23rd, 2017. Meanwhile, an Action Plan has been approved on September 29, 2017 by the Ministry of Environment Protection and Agriculture, which includes the establishment of a Water User Support Unit within the GA by April 2018, and the passing of a Water User Organization Law by parliament in Fall 2018.
6. Component 2: Land Market Development, (US\$2.25 million of which US\$0.93 million have been spent and US\$0.96 actually committed) is well on track and likely to complete its activities as planned by July 2019. Component 2 has the objective to finance the pilot phase of a land registration program in order to redefine and test the policies and procedures for registration of agricultural land. During the first phase of implementation the Component developed the



legal framework and operational manuals for undertaking systematic land registration activities. As of July 2017, the project began to test the previously developed legal framework and procedures in 12 pilot locations of Georgia, which are representative of the country's administrative and socio-economic diversity. Pilot testing concerns three different implementation approaches for systematic land registration, including full and partial outsourcing of services to the private sector. Since early, 2018, the Component has initiated a comprehensive monitoring and evaluation program, which will provide a foundation for national land registration strategy to roll out systematic land registration activities covering the entire nation.

7. Component 3: Project Management (US\$2.10 million of which US\$0.97 million have been spent and US\$1.46 actually committed). Overall Project Implementation Progress (IP) remains "Moderately Satisfactory" acknowledging the solid progress made on the Institutional Strengthening (Sub-component 1.2) and Land Market Development (Component 2.0)

8. The PDO has been assigned a "Moderately Unsatisfactory" rating given that the timeframe remaining until the current July 31, 2019 closing date would not be sufficient to complete key activities under Component 1, thereby undermining prospects for full achievement of the PDO. The proposed 24-months extension of the closing date to July 31, 2021 would allow completion of all activities envisaged within the framework of Component 1. Component 2 is assumed to achieve its outcome as planned by July 2019. Overall, undisbursed project funds of US\$28.8 million appear to be sufficient to achieve all PDO indicators within the extended project period. Reallocation of funds between Components has not been considered at this stage of project restructuring. The clients have however been advised to closely monitor expenditure categories and fluctuations of Special Drawing Rights (SDR) respectively.

II. DESCRIPTION OF PROPOSED CHANGES

9. This Restructuring Paper seeks RVP approval to:
- a. Extend the Project closing date, by two years from July 31, 2019 to July 31, 2021. The Government of Georgia requested an extension of the closing date in the formal letter dated March 21, 2018 from the Ministry of Finance (ref.# N 07-02/3775).
 - b. Adjust the implementation schedule accordingly.
 - c. Make modifications to the Results Framework to
 - i. reflect the indicators, values of the baselines and targets that were originally reflected in the PAD but were not included in the ISR so that they can be tracked going forward; and
 - ii. modify the target end dates to reflect the proposed new closing date.
 - iii. revise the breakdown (sub-indicator) for new irrigation services, e.g. modernized services such as pressurized irrigation (new); target cannot exceed the overall indicator target including both new and improved services.
 - d. Adjust the disbursement estimates to likewise account for the proposed two-year extension and corresponding updates to the respective implementation and procurement plans from FY2019 onwards.
10. Based on the proposed restructuring plan, and once the extension is granted, the PDO rating could be upgraded given increased prospects for meeting the PDOs within the extended two-year implementation period.



III. SUMMARY OF CHANGES

	Changed	Not Changed
Change in Results Framework	✓	
Change in Loan Closing Date(s)	✓	
Change in Disbursement Estimates	✓	
Change in Implementation Schedule	✓	
Other Change(s)	✓	
Change in Implementing Agency		✓
Change in DDO Status		✓
Change in Project's Development Objectives		✓
Change in Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Change in Disbursements Arrangements		✓
Change in Overall Risk Rating		✓
Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in Procurement		✓
Change in Economic and Financial Analysis		✓
Change in Technical Analysis		✓
Change in Social Analysis		✓
Change in Environmental Analysis		✓

IV. DETAILED CHANGE(S)

RESULTS FRAMEWORK

Project Development Objective Indicators



Absolute volume of irrigation water supplied to Project rehabilitated schemes (million m3 to first Project schemes)
 Unit of Measure: Text
 Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	67 million m3	67 million m3	95 million m3	Revised
Date	23-May-2014	29-Sep-2017	31-Jul-2021	

Area provided with new/improved irrigation or drainage services
 Unit of Measure: Hectare(Ha)
 Indicator Type: Corporate

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	20000.00	Revised
Date	23-May-2014	29-Sep-2017	31-Jul-2021	

Area provided with new irrigation or drainage services
 Unit of Measure: Hectare(Ha)
 Indicator Type: Corporate Breakdown

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	20000.00	Revised
Date	23-May-2014	29-Sep-2017	31-Jul-2021	

Recommended policies and procedures for national program of land registration submitted to government
 Unit of Measure: Text
 Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	The corpus of registration regulations and procedures in place	Guidelines for Systematic Land Registration were adopted by NAPR in May 2017	Recommended policies and procedures for national program submitted	No Change
Date	23-May-2014	29-Sep-2017	31-Jul-2019	

Intermediate Indicators

Water users provided with new/improved irrigation and drainage services (number)
 Unit of Measure: Number



Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	24000.00	Revised
Date	23-May-2014	29-Sep-2017	31-Jul-2021	

Water users provided with irrigation and drainage services - female (number)				
Unit of Measure: Number				
Indicator Type: Custom Breakdown				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	2400.00	Revised
Date	23-May-2014	29-Sep-2017	31-Jul-2021	

National irrigation and drainage strategy prepared and endorsed				
Unit of Measure: Text				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	No strategy	24. The National Irrigation Strategy to 2025 was approved by the Minister of Agriculture on May 23rd 2017	Strategy finalized and endorsed by government	No Change
Date	23-May-2014	29-Sep-2017	31-Jul-2019	

Number of land titles registered in project pilot areas				
Unit of Measure: Number				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	14000.00	14550.00	48000.00	No Change
Date	23-May-2014	29-Sep-2017	31-Jul-2019	

Direct project beneficiaries				
Unit of Measure: Number				
Indicator Type: Custom				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	50000.00	Revised



Date	23-May-2014	29-Sep-2017	31-Jul-2021	
Female beneficiaries				
Unit of Measure: Percentage				
Indicator Type: Custom Supplement				
	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	5000.00	No Change

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-54560	Effective	31-Jul-2019		31-Jul-2021	30-Nov-2021

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2014	0.00	0.00
2015	1,500,000.00	1,945,266.00
2016	3,978,781.01	3,135,001.00
2017	9,962,565.00	8,351,467.00
2018	11,338,357.00	7,580,474.00
2019	17,319,909.00	5,445,266.00
2020	771,473.00	11,000,000.00
2021	0.00	8,550,000.00
2022	0.00	374,423.00



Note on Component 1: Revised conditions on which the Bank would issue no objection to construction contracts for local level rehabilitation

11. The PAD (annex 2 para.18) states that “the institutional options for ownership and management of on-farm systems on each scheme should be established before rehabilitation of on-farm [local level] systems on that scheme begins”. These requirements are not legal conditions of the project financing agreement, they establish a common understanding of the conditions on which the Bank would issue no objection to construction contracts for local level rehabilitation. With this it is hoped to generate ownership of modernized irrigation systems and to make investments more sustainable. The principles behind these requirements remain valid but circumstances have changed and new conditions have been discussed and agreed with the Counterparts during the MTR. The new conditions define critical steps on the way towards WUO registration that must be taken before local level construction contracts start. They no longer require that WUOs are legally registered and operational before this point. However, they require a distinct level of readiness to engage water user organization in the management of irrigation systems at the local levels.

12. Summarized revised requirements include (i) a law on water user organizations / hydro amelioration to be passed by parliament; (ii) a water user organization support unit established within Georgian Amelioration LTD (GA); (iii) Water User Councils informally established, covering the irrigation area affected by the construction works aiming at (iv) design consultation and (v) founding WUOs; (vi) standard WUO charter defining the organizational structure and WUO governance arrangements in place ; and (vii) preliminary analysis as a basis for defining bulk and retail tariffs and for designing a system of needs-based subsidies completed.

Conditions for Bank Issuing No Objection to Proceed with Local Level Construction Contracts (p28 Annex 2 PAD)	Agreed Change During MTR	Explanation	Revised Conditions for Bank Issuing No Objection to Proceed with Local Level Construction Contracts
(i) Ownership of on-farm [now referred to as local level] irrigation infrastructure must be defined and if required transferred;	Removed	The strategy does not require the transfer of irrigation property to WUO. GA have confirmed in a letter dated 9 th January 2014 that local level infrastructure on the three schemes is legally owned by GA. Use rights will be transferred to WUOs as a part of the service contract between GA and WUOs.	1. WUOSU in GA staffed and operational (its operational costs initially funded through the project) and a draft budget for its operational costs prepared for inclusion in the GA budget following the passing of the Law on Water User Organizations / Hydro Amelioration (after which project funding for its operational costs will cease).
(ii) Organizations responsible for the management of on-farm systems must be legally registered;	Removed	WUO should not be registered earlier than half way through local level construction contracts otherwise they will start to incur costs before they are able to deliver water and may lose credibility.	2. Water User Councils informally established, covering the irrigation area affected by the construction contracts, as a basis for (i) design consultation and (ii) founding WUOs
(iii) Organizations responsible for the management of on-farm systems must have a clearly defined organizational structure, governance	Changed	WUO will not be legally registered at this point and so their organizational structure and governance arrangements will not be in place. A standard	3. Water users consulted on rehabilitation designs, and



arrangements in place and management staff appointed.		charter can however be prepared.	consensus amongst water users to proceed with the proposed rehabilitation evidenced by the minutes of Water User Council meetings.
(iv) An operation, maintenance and financing plan must be prepared for the scheme including: (a) an operation and maintenance schedule; (b) an estimate of full operation and maintenance costs for the on-farm system, to be included in the budget of the organization responsible for the management of on-farm systems; and (c) calculation of the relative contribution to operation and maintenance costs from irrigation service fees from farmers and government subsidies.	Changed	While preliminary site-specific MOM and cost estimates can be completed final plans approved by the governing body of the WUO cannot be completed until the WUO is registered.	4. The Law on Water User Organization / Hydro Amelioration passed by parliament. 5. A standard WUO charter defining the organizational structure and WUO governance arrangements prepared by the WUOSU, approved by the MEPA WUO Monitoring and Oversight Unit, and ratified through a Ministerial Resolution or similar formal instruction.
(v) An agreement between MEPA, the organization owning the on-farm system, and the organization responsible for on-farm water management, must be in place, setting out their respective obligations regarding rehabilitation, operation, maintenance and financing.	Removed	In light of the strategy and the proposed Law on HA, this requirement is redundant. The rights and responsibilities of all parties are defined in the law and their respective charters.	6. A standard (amendable) service agreement between GA and a WUO prepared by the WUOSU and approved by the MEPA WUO Monitoring and Oversight Unit.
(vi) An agreement between organizations responsible for the management of on-farm systems and water users must be in place that includes a definition of payment arrangements.	Changed	WUO will not have been legally registered at this point so agreement cannot be signed. A standard agreement for use by WUO can however be prepared.	7. A standard (amendable) agreement between WUO and water users prepared by the WUOSU and approved by the MEPA WUO Monitoring and Oversight Unit.
(vii) Water users must have been consulted on rehabilitation designs, and there must be a consensus amongst water users to proceed with the proposed rehabilitation.	Changed	Minor change to reflect the role of Farmer Councils in representing water users.	8. Preliminary analysis as a basis for defining bulk and retail tariffs and for designing a system of needs-based subsidies must be complete including (i) Ability to Pay Study; (ii) GA MOM Plans and Cost Estimates; and (iii) Preliminary WUO MOM Plans and Cost Estimates.