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PROJECT APPRAISAL DOCUMENT

ON A

GRANT

IN THE AMOUNT OF US\$10.052,155 MILLION (EQUIVALENT)

TO

GEORGIA

FOR A

SUPPORTING SUSTAINABLE WASTEWATER MANAGEMENT PROJECT

May 12, 2015

*Social, Urban, Rural and Resilience Global Practice
Europe and Central Asia Region*

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CURRENCY EQUIVALENTS

(Exchange Rate Effective May 12, 2015)

Currency Unit = GEL
GEL2.34 = US\$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BER	Bidding Evaluation Report
BOD	Biological Oxygen Demand
COD	Chemical Oxygen Demand
CPAR	Country Procurement Assessment Report
CPS	Country Partnership Strategy
CQS	Consultant Qualifications
CSPA	Competition and State Procurement Agency
DA	Designated Account
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EIA	Environmental Impact Assessments
EIB	European Investment Bank
EMF	Environmental Management Framework
EMP	Environmental Management Plans
ER	Environmental Reviews
EU	European Union
FAs	Fixed Assets
FBS	Fixed Budget Selection
FDI	Foreign Direct Investment
FI	Financial Intermediary
FM	Financial Management
FMM	Financial Management Manual
GDP	Gross Domestic Product
GiZ	German Technical Cooperation
GoG	Government of Georgia
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant
ICB	International Competitive Bidding
IDA	International Development Association
IFAC	International Federation of Accountants
IFI	International Financial Institute
IFRs	Interim un-audited financial reports
ISA	International Standards on Auditing
KfW	Kreditanstalt für Wiederaufbau (German development bank)

LCS	Least-Cost Selection
LSGs	Local Self-Governments
MCC	Millennium Challenge Corporation
MDF	Municipal Development Fund of Georgia
M&E	Monitoring and Evaluation
MOF	Ministry of Finance
MRDI	Ministry of Regional Development and Infrastructure
NBG	National Bank of Georgia
NCB	National Competitive Bidding
O&M	Operations and Maintenance
OM	Operations Manual
PDO	Project Development Objective
PIE	Project Implementing Entity
PP	Procurement Plan
QCBS	Quality and Cost-Based Selections
RAPs	Resettlement Action Plans
RDP	Regional Development Project
RMIDP	Regional and Municipal Infrastructure Development Project
RPF	Resettlement Policy Framework
SAR	Subproject Appraisal Report
SECHSA	Strategic Environmental, Cultural Heritage and Social Assessment
SIDA	Swedish International Development Agency
SOE	Statement of Expenditure
SSS	Single Source Selection
TA	Technical Assistance
TF	Trust Fund
TOR	Terms of Reference
USAID	United States Agency for International Development
UWSC	United Water Supply Company
UWSCG	United Water Supply Company of Georgia
WWTP	Wastewater Treatment Plant

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DATA SHEET

Georgia

SUPPORTING SUSTAINABLE WASTEWATER MANAGEMENT PROJECT

PROJECT APPRAISAL DOCUMENT

Europe and Central Asia Region

Date: May 12, 2015 Country Director: Henry Kerali GP Sr. Director: Ede Jorge Ijjasz-Vasquez Practice Manager: Bernice K. Van Bronkhorst (Acting) Team Leader: Ahmed Eiweida/ Xiaolan Wang Project ID: P145040 Lending Instrument: IPF	Sectors: General water, sanitation and flood protection (80%), local government administration (20%) Theme(s): City-wide infrastructure and service delivery (100%) EA Category: B
Proposed terms:	
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other:	
Source	Total Amount (US\$M)
Total Project Cost:	
SIDA Grant:	10.052,155
Recipient:	2.513,039
Total Project Financing:	12.565,194
Recipient: Georgia Responsible Agency: Georgia Municipal Development Fund (MDF) Contact Person: Iliia Darchiashvili, Executive Director Telephone No.: +995 32 2437001/02/03 Fax No.: +995 32 2437077 Email: idarchiashvili@mdf.org.ge	
Estimated Disbursements (Bank FY/US\$ m)	

FY		2015	2016	2017	2018	
Annual		0.800	2.000	3.00	4.252,155	
Cumulative		0.800	2.800	5.80	10.052,155	

Project Implementation Period: August 15, 2013
Effectiveness date: August 15, 2013
Expected closing date: June 30, 2018

Does the Project depart from the CAS in content or other significant respects? Yes No

If yes, please explain:

Does the Project require any exceptions from Bank policies? Yes No
Have these been approved/endorsed (as appropriate by Bank management)? Yes No
Is approval for any policy exception sought from the Board? Yes No

Does the Project meet the Regional criteria for readiness for implementation? Yes No

Project Development objective:

The objective of the Project is to promote sustainable wastewater management in Georgia and pilot the implementation of wastewater treatment plants.

Project description: The Project consists of the following two components:

Component 1: Technical Assistance: Provision of technical assistance to support Georgia in developing adequate policy environment documents for improved wastewater treatment infrastructure.

Component 2: Investment Grants: Improvement of the efficiency of the water and wastewater sector through: (a) the rehabilitation of two to three wastewater treatment plants; and (b) the provision of Investment Subproject Grants to support the implementation of Investment Subprojects.

Safeguard policies triggered?	
Piloting the Use of Borrower Systems to Address Environmental and Social Issues in Bank-Supported Projects (OP/BP 4.00)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Forests (OP/BP 4.36)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Pest Management (OP 4.09)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Projects on International Waters (OP/BP 7.50)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Projects in Disputed Areas (OP/BP 7.60)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Conditions and Legal Covenants:

Description	Due Date	Frequency
The Recipient shall cause the Project Implementation Entity to carry out the Project in accordance with the Grant Agreement, the Subsidiary Agreement and the Project Operations Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior written approval of the World Bank (Grant Agreement: Article II; 2.03)	Recurrent	Recurrent
The Recipient shall cause the Project Implementation Entity to monitor and evaluate the progress of the Project and prepare project progress report covering the period of one calendar quarter. (Grant Agreement: Article II; 2.05)		Quarterly

Team Composition

Name	Title	Specialization	Unit

Ahmed A. R. Eiweida	Program Leader	Task Team Leader	ECCU3
Xiaolan Wang	Senior Operations Officer	Co-Task Team Leader	GSURR
Darejan Kapanadze	Senior Environmental Specialist	Environment	GENDR
Sandro Nozadze	Procurement Specialist	Procurement	GGODR
Michelle Rebosio Calderon	Social Development Specialist	Social Development & Safeguards	GSURR
Nino Metreveli	Social Development Specialist	Social Development & Safeguards	GSURR
Rocio Mariela Malpica Valera	Senior Counsel	Legal	LEGLE
Jose Janeiro	Senior Finance Officer	Disbursement	WFALA
Sophie Devnosadze	Operations Analyst	Operation Support	ECCGE
Galina Alagardova	Financial Management Specialist	Financial Management	GGODR
Damir Leļjak	Finance Analyst	Finance Analyst	WFALA
Deepal Fernando	Senior Procurement Specialist	Procurement	GGODR
Lisa Fonick Haworth	Office Manager	Office Manager	GSURR
Militsa Khoshtaria	Program Assistant	Program Assistant	ECCGE
Name	Title	Office Phone	City
Christopher Schmandt	Water & Sanitation Consultant		Zurich
David Dekanosidze	Implementation Support		Tbilisi
Tinatin Lebanidze	Research Analyst		Tbilisi
Marinos Skempas	Transport Consultant		Athens
Iuza Ugulava	Implementation Support		Tbilisi

I. Strategic Context

A. Country Context

1. With a population of 4.5 million people, growth in Georgia averaged nearly 6 percent per annum during 2004-2013. While Georgia remains one of the very few countries in Europe and Central Asia (ECA) that have not yet caught up to their 1990 real Gross Domestic Product (GDP) level, it has benefited from a noteworthy push on structural reforms and liberalization starting in 2004. Improvements in the business environment, infrastructure quality, public finance, and reduced trade barriers stimulated investments. GDP per capita increased from \$920 in 2003 to \$3,597 in 2013 although it is still among the lowest in ECA.

2. Georgia did not experience the structural transformation associated with pushing resources and productivity growth towards the export sectors. While it achieved global recognition as one of the top performers on the Doing Business rankings (ranked 15th out of 183 countries in the 2014 Doing Business Report), productivity gains were concentrated mainly in non-tradables, and Foreign Direct Investment (FDI) was mainly in this area.

3. After modest economic growth in 2013, output expanded by 5 percent year-on-year in the first eleven months of 2014. The signing of the Association Agreement with the European Union (EU) and greater policy certainty resulted in an uptick in business and consumer confidence and the pace of output expansion picked up. The first three quarters of 2014 saw robust growth supported by stable domestic conditions and buoyant external demand. The large Russian market which opened up for Georgian products in July 2013 helped increase exports, particularly of wine. However, tensions in the region have adversely impacted growth in the fourth quarter, primarily through lower external demand and spillover effects. For 2014 as a whole, growth is likely to be below 5 percent. Economic growth over the past decade, more generally, was fueled by large foreign capital inflows and significant policy reforms during the pre-crisis years, and by high public capital spending during the post-crisis recovery period. Overall, growth during 2004-13 was largely powered by services, construction and non-tradables.

4. Despite this growth, unemployment stayed high and it remains as one of the most significant public policy challenges. Georgia's robust growth performance was accompanied by high unemployment, which remained at the 12-13 percent range even during the pre-crisis boom. Unemployment peaked to 17 percent in 2010 and then fell to 15 percent in 2013. Georgia was able to create significant new employment in new growth sectors, especially in tourism and other service sectors, but this has been insufficient to bring about overall net job creation. This reflects, in part, challenges with (a) skills, largely because the existing educational curriculum is not in line with the demands of the private sector¹, (b) uneven development and regional disparities, and (c) poor tourism infrastructure outside the capital city Tbilisi.

5. Reducing poverty and promoting shared prosperity remain a challenge in Georgia. There has been a significant progress in poverty reduction and shared prosperity in recent years, but it has been driven by factors other than net job creation. The poverty rate, according to the absolute poverty line used by the World Bank, fell from 21 percent in 2010 to 14.8 percent in 2012, with

¹ World Bank, Skills Mismatch and Unemployment in Georgia: The Challenge of Creating Productive Jobs, 2012.

3.7 percent of the population living in extreme poverty². Between 2010 and 2012, the mean consumption of the bottom 40 grew at 5.3 percent annually, exceeding the growth enjoyed by the population overall³. This was mainly attributable to government transfers, food disinflation and increased earnings. Inequality in Georgia is higher than in the ECA region on average with a Gini coefficient of 40.7 in 2011⁴. Episodes of poverty reduction and increase in Georgia have not always been closely aligned with periods of GDP growth, underscoring the fact that growth has not been inclusive. This dichotomy can be explained by the low net job creation during growth episodes and the employment limitations imposed by the relatively lower educational attainment of the poor.

6. The Government aims to address two priorities—increasing employment and narrowing the current account deficit. These are to be achieved by promoting private investments in sectors such as tourism, energy and logistics, and by continuing public investment in infrastructure, regional development, agriculture and education. These efforts are seen as key catalysts for accelerating job creation. Consequently, Georgian authorities continue to support the private sector to lead economic growth and job creation efforts.

B. Sectoral and Institutional Context

7. In most cities, towns and villages in Georgia, the quality, coverage and maintenance of basic municipal and infrastructure services have declined since the break-up of the Soviet Union due to inadequate resources for capital investment and maintenance. This was exacerbated by the age of the infrastructure, and the fact that technology was over-designed and thus was expensive to maintain, inefficient in its energy-use, and lacked routine maintenance.

8. The wastewater sector manifests such challenges. About 35 percent of Georgia's population is served via sewage collection networks in about 45 urban centers. The role of service-provider is filled by the United Water Supply Company of Georgia (UWSCG), which manages water supply and sewerage system operations through its nation-wide 53 service centers. The sewerage pipes are typically decades old and in poor condition and, at most, 5 out of 29 wastewater treatment plants (WWTPs) have marginal functionality with physical treatment only (with the exception of one new WWTP). Numerous sewer networks collect and concentrate wastewater, but release it untreated, thus polluting waterways.

9. The sector also underperforms according to basic measures of sustainability and it remains challenged by three primary bottlenecks: revenue generation, securing investment funds for asset upgrade and replacement, and operational capacities. The nation-wide uniform tariff set by the Government covers only about 40 percent of its annual operational expenses. The remaining 60 percent is covered by Government of Georgia subsidies with full cost recovery currently beyond the customers' affordability levels. Furthermore, the GoG lacks capital to rehabilitate the wastewater treatment system. Finally, UWSCG currently does not operate any

² At the ECA regional poverty line of US\$2.50 per person per day, poverty was 45 percent in Georgia in 2011 and has not changed much over the past decade.

³ Consumption growth among the bottom 40 percent was 5.4 percent during 2010-12 compared with 3.6 percent for the population as a whole.

⁴ Gini coefficient based on regionally comparable harmonized consumption data.

functional wastewater treatment plants and would need intensive capacity building to manage investments related to this sub-sector.

10. The GoG is undertaking investments in basic water supply and sewerage infrastructure, in an effort to boost economic development, by working with donors such as the World Bank, Asian Development Bank (ADB), KfW Kreditanstalt für Wiederaufbau (the German development bank) and European Investment Bank (EIB). These investments currently cover water supply network rehabilitation/ construction, customer water meter installation and tariff adjustment of the water supply system to reduce high level wastewater generation in communities. For example, the World Bank's efforts in the projected targeted regions include the Regional Development Projects I (Kakheti Region) and II (Imereti Region) which aim at economic regeneration focusing on local tourism development and also finance basic infrastructure. The World Bank has been supporting the improvement of municipal service delivery and infrastructure since 1997, most recently under the Regional and Municipal Infrastructure Project (RMIDP) and its Additional Financing (RMIDP-AF); closed in December 2014, fully disbursed with satisfactory PDO and implementation ratings. These operations have contributed significantly to addressing the backlog of municipal capital investment requirements outside the capital city, including rehabilitation of 245 kms of roads and improving access of approximately 400,000 people to water. They have also assisted the Government in the preparation of several key reform documents, including a National Wastewater Management Strategy, with feasibility studies for wastewater treatment plants in six cities. However, all the donor supported investments have not included WWTPs other than one initiative supported by KfW.

11. This Swedish International Development Agency (SIDA) Trust Fund (TF) financed Sustainable Wastewater Management Project will aim to complement the World Bank-supported Regional Development Projects (RDPs) which finance basic infrastructure to support tourism and promote economic growth, but do not have funding available to support wastewater management. This SIDA TF aims to support wastewater management in the same area to complement other infrastructure development through (a) enhancing the institutional and technical capacity in Georgia for sustainable wastewater management; and (b) providing parallel financing for piloting rehabilitation of 2-3 wastewater treatment plants in the target regions of the RDPs i.e., Imereti and Kakheti with cost-effective modern treatment technology.

C. Higher Level Objectives to which the Project Contributes

12. The Project is aligned with the Country Partnership Strategy (CPS) for FY14-FY17 (Report number: 85251-GE), which was discussed by the World Bank Board of Directors. The Project supports Focus Area 1, "Strengthening public service delivery to promote inclusion and equity" and CPS Objective 4 of "Strengthened effectiveness and accountability of public administration." The goal is to improve the prioritization, design, execution and evaluation of specific public sector programs so as to ensure that the poorest are targeted, more people are benefiting and impact is greater. The Project will reduce health hazard to the poor communities living next to the open sewerage channels and polluted water bodies with untreated wastewater.

13. The proposed Project is also aligned with the Georgia’s “Wastewater Management Strategy” (the Strategy) approved through the passing of Decree 638 on 10 April 2014 (financed under the IDA Municipal and Regional Infrastructure Development Project). The Wastewater Management Strategy provides the Government with a roadmap/action plan to (a) reform policies and regulatory framework governing wastewater treatment in Georgia, and (b) implement cost-effective WWTPs aligned with the EU standards.

II. Project Development Objectives

A. PDO

14. The objective of the Project is to promote sustainable wastewater management in Georgia and pilot the implementation of wastewater treatment plants.

B. Project Beneficiaries

15. The Project activities are expected to benefit residents of cities where WWTPs will be rehabilitated. Residents will benefit from improved sanitation and environment conditions. In addition, the United Water Supply Company (UWSC), Municipal Development Fund (MDF), and selected municipalities will improve their capacity to operate and maintain assets.

C. PDO Level Results Indicators

16. The achievement of the development objective will be measured by the following key results indicators:

- Increased institutional and technical capacity for wastewater management.
- Increased percentage of urban population that has access to sustainable wastewater services.
- Decreased discharges of untreated wastewater into waterways.

III. Project Description

A. Project components

17. The Project consists of the following two components:

Component 1: Technical Assistance (US\$2.620,194 million)

This component will finance studies, consulting services, training, workshop and study tours and will consist of the following activities:

- (a) Provision of technical assistance (TA) to further develop the regulatory framework for improved wastewater treatment infrastructure.
- (b) Training including: (i) wastewater management, including affordability, sustainability and cost recovery; (ii) on-the-job training in wastewater operation and maintenance,

including sludge management, disposal and reuse of water resources; and (iii) study tours on best practice of different sustainable wastewater technologies.

- (c) Development of a policy for sludge management, including final disposal.
- (d) Preparation of feasibility studies, engineering designs, construction supervision, monitoring and evaluation activities and provision of technical assistance to the Project Implementing Entity and the UWSC.
- (e) Stakeholder consultations on wastewater management to promote public participation.

Component 2: Investment Grants (US\$9.945,000 million)

This component will finance infrastructure investments (Investment Sub-project grants), including provision of works, goods and consultant services to rehabilitate and expand two to three wastewater treatment plants.

The potential investment will be selected based on the following criteria:

- (a) Rehabilitation of wastewater treatment infrastructure on existing sites in municipalities prioritized by the national government (to maintain an Environmental Assessment Category B ranking).
- (b) Complementary to prior/ongoing investments (in conjunction with international financing institutions, such as Tskaltubo of the World Bank-funded Regional Development Project II at Imereti Region and Telavi of Regional Development Project at Kakheti Region) – to benefit from needed complementary “upstream” investments in the water and wastewater systems, such as network rehabilitation/ construction and customer demand management.

B. Project Financing

1. Financing Instrument

18. The proposed Project shall be financed from a SIDA grant, of which about 20 percent is for the TA component and 80 percent is for the investment grant component. SIDA has already made available funds for this project through its contribution to this Swedish Programmatic Trust Fund for Supporting Sustainable Wastewater Management in Georgia. While the Programmatic TF receives its contributions in Swedish Kronor, the currency is converted upon receipt into US dollars, as the TF holding currency is US dollars. The Recipient will provide US\$2.513,039 million to cover the payment of taxes.

2. Project Cost and Financing

Project Components	Project cost (US\$ million)	SIDA Financing (US\$ million)	% Financing (exclusive of taxes)
1. Technical Assistance	<u>2,620,194</u>	2,096,155	100%
2. Investment Grants	<u>9,945,000</u>	7,956,000	100%
Total Project Costs	12,565,194	10,052,155	100%

C. Lessons Learned and Reflected in the Project Design

19. Lessons learned and reflected in the Project design include:

Strategic approach. World Bank experience in infrastructure investments in Georgia reveals the need for an integrated approach mixing infrastructure investments and TA activities as evidenced by several community infrastructure and economic development investments by the GoG together with International Financial Institutions (IFIs), such as the ADB, EIB, KfW, World Bank, etc. Such an integrated approach is essential for sustainability of investment.

Donor leveraging. World Bank lending experience in Georgia demonstrates that stretching capital investment resources too thinly compromises technical feasibility, economic and financial viability, visibility, and results. A combination of parallel donor financing has maximized the chances of achieving a positive investment impact. This SIDA TF Project will complement EIB and the World Bank financed investment in selected areas, thus allowing for a more comprehensive investment program in the largest region.

Sustainability. Investment grants should be carefully assessed on economic, financial and safeguards criteria and least cost solutions should be promoted, as prescribed in the Wastewater Management Strategy. Global experience for wastewater treatment plant indicates that a high-performance, high-energy type treatment technology resulted in an elevated risk of underachievement. This means significant energy may be expended to provide minimal water purification, with the risk that the high electric bills force the managing utility to reduce the plant operation periods. Consequently, the feasibility of less-energy intensive treatment technologies, such as facultative ponds and/or trickling filters was recognized in the strategy and will be explored in this project. These are especially suitable with a phased approach to establish treatment plant.

IV. Implementation

A. Institutional and Implementation Arrangements

20. The Project will be implemented by the MDF and build on its successful project management of other Bank financed operations. MDF will be responsible for all project implementation, procurement, safeguards, financial management and disbursements. Established by Presidential Decree #294 on June 7, 1997, it has since developed into a solid non-bank financial intermediary (FI) that plays a central role in funding and developing regional and municipal infrastructure. Funds have been provided by the GoG, several international financial institutions and donors (including ADB, EBRD, Millennium Challenge Corporation, SIDA, KfW, etc.) and its own revenue. Its solid implementation capacity and performance are reflected by the growing interest from the Government and donors to channel their grants and credits through the MDF to municipalities.

21. The MDF is governed by a Supervisory Board that is comprised of the Prime Minister, key Ministers, parliamentarians and civil society (Transparency International Georgia). The Board's functions include: (a) overall supervision of Project implementation; (b) inter-agency coordination; and (c) review and approval of the annual work program, budget and reports. The Supervisory Board met several times during Project preparation and endorsed its design, cost, implementation arrangements and procurement plan. Meetings have been held regularly with the Prime Minister and the Minister of Finance, who also lead donor coordination.

22. To ensure the viability of projects, as per standard practice under other World Bank supported Projects, the MDF will prepare Subproject Appraisal Reports (SARs) for all investments to be implemented under the Project. The SARs include subprojects feasibility and safeguards issues, and analyze the availability of funds for Operations & Maintenance (O&M) of the restored assets to ensure sustainability. All SARs are to be approved by the Bank prior to the start of the tender process.

23. The SIDA funds will flow either through the designated account (DA) to be maintained in the Treasury, which will be replenished on the basis of Statement Of Expenses (SOEs) or full documentation, or on the basis of direct payment withdrawal applications and/or special commitment, received by the Bank from the MDF. The government counterpart funding will be disbursed, via the Treasury, through normal budget allocation procedures initiated by the MDF, according to standard Georgian Treasury and Budget execution regulations. The funds will be used to finance eligible expenditures under the Project.

B. Results Monitoring and Evaluation

24. The MDF will be responsible for monitoring and evaluating the Project outcomes on behalf of the Recipient, against agreed indicators as presented in the Results Framework and will prepare Progress Reports. Baseline data has been gathered from the findings of the wastewater management strategy, while progress in meeting targets will be carefully monitored under the Project. The MDF will contract an international consulting firm to (a) assist in collection and

analysis of data, and (b) assist in construction supervision. The cost of these services, as well as raising the institutional capacity to sustain Project interventions, is built into the Project design under Component 1. The MDF will produce quarterly progress reports to assess implementation and suggest any need for adjustments. The terms of reference for Management and Evaluation (M&E) and supervision construction have been prepared and reviewed by the Bank task team.

C. Sustainability

25. The Project emphasizes stakeholder ownership, and O&M of rehabilitated assets in the following ways:

- The Ministry of Regional Development and Infrastructure (MRDI), Ministry of Environment and Ministry of Health have been engaged in the project preparation and design. Their continued engagement throughout implementation and supervision will ensure continued project acceptance and the incorporation of local knowledge into the project.
- Several consultation workshops have been held with local communities in the course of preparing the wastewater management strategy and will continue during implementation.
- The Investment Sub-project grants in selected municipalities will be screened against criteria in the Operations Manual (OM).
- The O&M cost coverage will be regulated by an Investment Subproject Agreements between the MDF and municipalities where the WWTP will be rehabilitated. The municipalities will be responsible for providing necessary budget for O&M. The tariff for wastewater services must remain within affordable limits (typically combined drinking water and wastewater fees should not exceed five percent of family income).
- The TA component focuses on building the capacities of the national water and wastewater service provider/asset owner (UWSC) in the management/administration as well as O&M of wastewater systems (collection network and treatment plant). UWSC's combined role of service provider and asset owner emphasizes the need to develop and institutionalize a proactive culture for wastewater management in this national entity.

V. Key Risks and Mitigation Measures

A. Risk Ratings Summary Table

Stakeholder Risk	Rating
Implementing Agency Risk	
- Capacity	M
- Governance	M
Project Risk	
- Design	M
- Social and Environmental	M
- Program and Donor	M
- Delivery Monitoring and Sustainability	M
Overall Implementation Risk	M

26. **Implementation Capacity:** Despite the MDF's solid implementation capacity, there is a risk of delays or weak supervision of works under Investment Subprojects due to MDF's increased work load. The MDF currently implements several other projects financed by ADB, United States Agency for International Development and EU in addition to the Bank financed RMIDP, RDP and RDP II projects. To mitigate this risk, MDF has set up a contract management division and has designated procurement staff responsible for implementation of this Project. Furthermore, subject to World Bank review and no objection, MDF is in the process of hiring an independent consulting firm to provide construction supervision support and prepare progress reports. Another firm will be hired to provide performance monitoring support.

27. **Procurement:** There is a moderate risk of perceived collusion among bidders. To mitigate this risk, the MDF will closely analyze the bids submitted in order to detect any unusual similarities. Each Bidding Evaluation Report (BER) shall be supplemented by unit price comparison of all bidders vs. cost estimate.

28. **Environmental and social safeguards:** Performance by the MDF had lately become relatively weak. To address associated risks, the MDF has recently undertaken a process of institutional reorganization, which has significantly improved its institutional capacity for safeguards management. Staff positions of safeguard specialists are being filled with qualified staff on a competitive basis. Once staffing is completed, the environmental and social specialists of the MDF will receive training from the World Bank's safeguard specialists. The MDF will also have an opportunity to supplement its in-house safeguards team with hired consultants as required.

B. Overall Risk Rating Explanation

29. Implementation risk is rated as moderate. The Project builds on a series of successful engagements with the GoG using a similar framework (i.e. governance structure, procurement and financial management arrangement) and the same implementing agency. If the risks materialize, the impact on the achievement of the PDO is expected to be moderate. However, based on the Bank's and MDF's past experience in implementing municipal development projects, the likelihood of most risks materializing is low. This supports rating the overall Project risk as moderate.

VI. Appraisal Summary

A. Economic and Financial Analyses

30. **Economic Analysis:** The Project is demand-driven and the pipeline of project investments to be financed under the Project is hence not known a-priori, although they are likely to include rehabilitation of treatment plants in Tskaltubo (Imereti region) and Telavi (Kakheti region). The economic analysis of each project will be carried out using cost-effectiveness approach as part of its feasibility study. The economic analysis framework in the OM provides guidance to the economic appraisal process. The economic framework outlines the expected scope and

methodology of the analysis by type and size of investments, including the quantifiable benefits to be assessed and the baseline monitoring indicators to be established.

31. Financial Analysis: The financial analysis of each project will be carried out as part of its feasibility study. The financial analysis framework in the OM provides guidance on the financial appraisal process. The financial analysis framework of projects proposed for financing under the Program requires demonstrated municipal financial capacity to cover the annual operations and maintenance cost in a sustainable manner.

B. Technical

32. Building on the successful experience of the RMIDP, RDP and RDP II, the Project also consists of infrastructure financing and capacity building activities. The focus is on establishing wastewater treatment in two to three towns and provision of TA to UWSCG for institutional development and operational sustainability. The Project acknowledges the current deficient state of the wastewater sector – and is structured to correct three interrelated factors at the root of the problem: policies, capacities and infrastructure.

33. The TA component targets existing policy and regulatory gaps in the institutional framework, the first vital factor in the process to resuscitate the wastewater sector. The Wastewater Management Strategy Summary Report was adopted by the GoG as a guidance document to the UWSCG, but it remains to be transcribed into an independent legal document and presented to the Cabinet for approval. Treatment plant effluent regulations exist in Georgia, but are excessively stringent, such that plant operations expenses are estimated to far exceed customer affordability limits. The Wastewater Management Strategy suggests an effluent phasing strategy pegged to community affordability levels and thus allow plant infrastructure to be realized in stages. Sludge disposal requirements and facilities do not exist in Georgia. Technical guidance will be prepared to ensure an efficient and effective solution for sludge management appropriate to the Georgian context. Currently no regulations are known to exist to control the discharges of sewage into the community sewer collection systems. Relevant requirements to establish industrial pre-treatment facilities and monitoring programs will be established to protect the original investments in the collection network and treatment infrastructure. Overall, clear and consistent capacity building will be provided at the national level to ensure the urban wastewater management cycle is addressed to improve public health-environmental protection and sustainable tourism development objectives.

34. The TA component of the Project also addresses the second factor necessary for the transition back to functional community wastewater services: closing the existing gaps in the technical, operational and administrative capacities of the national service-provider. The UWSCG does not possess either standard operating procedures or staff experienced in wastewater management, since no wastewater treatment facilities are currently in operation in Georgia (with the exception of one new plant recently financed by the KfW – but of a different technology type). The TA includes elements to establish job descriptions and on-the-job training for operation / trouble-shooting of both collections networks and treatment plants (beyond the training provided by the treatment plant contractor). In addition, the TA includes measures to develop a UWSCG tariff and billings-collections Action Plan with the aim for customer revenues

to cover water and wastewater operations expenditures and transition away from government subsidies over 10 years in the communities served by the wastewater treatment plants under the Project.

35. The investment grant component of the Project targets the third key factor to restoring Georgia's wastewater sector: the decrepit and inoperable state of community wastewater treatment plants. Sewage treatment facilities previously existed in many of the larger towns and cities, but were abandoned due to the organizational and financial disruptions before the country gained independence. The Project foresees the rehabilitation of wastewater treatment plants in 2 to 3 communities.

36. The investment grants are structured to support implementation of the Wastewater Management Strategy in such a way that: (a) demonstrates the necessary procurement, design and administrative procedures to realize such infrastructure works; (b) illustrates the community selection process to benefit from complementary investments, which maximize probability of successful plant operations by building on "upstream" investments (such as for customer water meters for demand management and pipe network improvements). For example, the first-tier priority locations for the treatment plants are located in communities with ongoing sector investments by the World Bank and other IFIs: Tskaltubo (RDP-II, Imereti), Telavi (RDP, Kakheti) and Zestaphoni (RMIDP Feasibility Study) and; (c) demonstrates the use of the treatment process selection matrix developed in the Wastewater Management Strategy to identify technologies which reflect customer affordability requirements for robust treatment with lower operation expenses.

37. A key outcome of the Wastewater Management Strategy was to recognize the feasibility in most of Georgia of less-energy intensive treatment technologies, such as facultative ponds and/or trickling filters; these are especially suitable with a phased approach to treatment plant realization (such as, building a mechanical or mechanical-biological treatment plant first, within the Project, followed by the addition of biological and/or nutrient removal facilities at a later time after this Project, once customer affordability increases – and once UWSCG is more experienced in plant operations). Moreover, this technological approach incorporates the global "lessons learned" of more energy-intensive, activated sludge treatment plants. Such plants often struggle to maintain a functional biological treatment, due to diluted sewerage, caused by insufficient "upstream" investments.

C. Financial Management

38. The Financial Management (FM) arrangements of the Project mirror those of on-going projects implemented by the MDF, and these are acceptable to the Bank. The significant strengths that provide a basis for the project FM system include: (a) significant experience of MDF's FM staff in implementing Bank-financed projects for several years; (b) overall adequate accounting system and software utilized by MDF, (c) FM arrangements similar to several projects currently being implemented by the MDF and found to be acceptable to the Bank, and (d) unmodified audit reports issued on the on-going projects and on the entity financial statements.

39. The FM arrangements at the MDF, including budgeting and planning, accounting and financial reporting, external audits and funds flow are adequate and acceptable to the Bank.

40. The MDF has an adequate internal control system in place for project implementation. Recent changes in MDF management have resulted in stronger ownership and commitment of the management to transform the MDF into a sustainable and competitive organization.

41. No major weaknesses were identified in the MDF, although some inconsistency was observed in the timeliness and quality of the interim un-audited financial reports (IFRs) of ongoing World Bank finance projects. The MDF is committed to enforce proper control procedures ensuring that IFRs are submitted to the Bank on time, and consistent quality control procedure over IFRs is maintained. The quality and timeliness of IFRs will be constantly monitored by the Bank. The Financial Management Manual (FMM) was updated to cover the FM arrangements under the proposed Project.

42. Since January 2006, the Treasury's foreign currency account at the National Bank of Georgia (NBG) has been used for all new World Bank financed projects' DAs. Overall, these arrangements are satisfactory and will remain in place during the project implementation.

D. Procurement

43. The proposed Project will finance two to three major contracts for rehabilitation of wastewater treatment plants in the target regions of the RDPs i.e., Imereti (Tskaltubo) and Kakheti (Telavi) as well as several TA activities including supervision of construction for the plants. Preparation of the feasibility study is underway. The MDF currently manages the procurement of several World Bank financed projects and it will continue to assume this function under the proposed Project. Implementation arrangements remain unchanged from other ongoing projects. Procurement progress of the ongoing projects is satisfactory. The Bank procurement team updated its assessment of the MDF and identified certain risks listed below. The procurement risk is rated as "Moderate"; and mitigation measures will be applied. The MDF has a qualified manager supported by several procurement staff, which has the required capacity to implement this Project.

- (a) The MDF may not have sufficient staff and time to coordinate the procurement action under this new proposed Project. **Risk Mitigation** – the MDF assigned Head of Procurement Division as a key person for all procurement related issues under the Project paid under the MDF's own financial resources. An additional procurement specialist, whose qualifications are acceptable to the Bank, shall be engaged in the project and support Head of Procurement Division.
- (b) Contract management is in place but needs to be strengthened to avoid delays in contract implementation phases and there is a risk that important milestones may not be monitored. **Risk Mitigation** – Contracts Management specialists from the Procurement Division of the MDF will work on this Project. MDF staff/procurement specialists have also benefited from the study tour for sustainable wastewater technologies financed under

the grant.

44. Procurement will be carried out according to the World Bank's Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants, July 2014 and the Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, July 2014. The decision making structure of the MDF with regards to procurement issues remains the same as in other Bank-funded Projects.

45. The MDF will select an independent supervision company on a competitive basis for rehabilitation of waste water treatment plants envisaged under the project. The MDF's own supervisors will continue to monitor work quality and progress in the field. The World Bank team will intensify its implementation support during the beginning of the Project.

E. Social (including safeguards)

46. The Project is expected to generate positive social impacts by improving sanitation and environment conditions in selected cities. Wastewater is currently discharged without any treatment in several cities in Georgia, including Tskaltubo and Telavi, due to the dilapidated state of obsolete treatment facilities, causing substantial pollution to the environment and health hazards for people. The negative social impacts are expected to be limited, including some temporary inconvenience to local residents during construction.

47. Temporary impacts include dust, noise, limited access to the areas and increased safety risks will be addressed through the Environmental Management Plans (EMP)/Environment Reviews (ER) for each Investment Subproject, as well as the Environmental Management Guidelines for Contractors, both of which are included in the OM. These temporary impacts will likely be limited, since there are only a few residential structures in the immediate vicinity of most project sites.

48. **Resettlement and land acquisition.** The Project triggers the World Bank Safeguards Policy on Involuntary Resettlement OP 4.12. A Resettlement Policy Framework (RPF) was prepared and disclosed to the public according to the policy. Resettlement impacts would mainly relate to possible temporary relocation and/or loss of income or productive assets during construction. If any case of resettlement or land acquisition is identified, a Resettlement Action Plan (RAP) will be prepared in advance of the sub-project appraisal to address the impact on affected people. Prior to the start of works in such a site, the MDF will ensure that the owners and users of the land will be fully compensated according to the RAP provisions. No land acquisition or resettlement is associated with the first sub-project in Tskaltubo.

49. **Public consultation.** As part of the Investment Subproject's appraisal and approval process, the MDF will ensure that public consultations with beneficiaries are conducted. Efforts will be made to increase community participation and involve municipal officials.

50. **Gender.** The Project is likely to affect men and women somewhat differently because their patterns of water usage differ. Women use sources of water in the Project sites for many

purposes, in particular for their greater role in domestic work; thus improving sewerage connections is expected to have a positive direct effect on women's health. Of course, men come into direct contact with water as well and will benefit, including when their work involves handling water. The results of the project activities will be monitored using gender disaggregated data, to learn more about the impact of pilot wastewater improvements. The project will ensure that women are well represented in public consultations.

F. Environment (including safeguards)

51. The Project includes investment components to develop sewerage and wastewater treatment infrastructure and thus triggers the OP/BP 4.01 Environmental Assessment. Because the Project will not invest in the construction of new WWTPs, there are no risks related to site selection and soil breaking. However, rehabilitation of the existing WWTPs, which have been out of operation for the extended periods of time, may require replacement and/or addition of sewage piping and other elements of infrastructure. Other typical risks of medium size construction works will also have to be considered and handled, such as health damage and accidents at work sites, mismanagement of solid and liquid wastes at the construction sites and at the places of their final disposal, unnecessary damage to vegetative cover around the work sites due to unregulated movement of construction vehicles and machinery, etc.

52. The most important issue of the operation phase would be the management of sludge, since the country lacks the solid waste management system and infrastructure that would provide straightforward arrangements for sludge acceptance and disposal. Nonetheless, the environmental risks of the construction and operation phases of the Project are manageable and are not expected to have significant, long term or irreversible impacts on the natural environment. Thus, the Project is classified as environmental Category B. The Project will finance several site-specific interventions, out of which rehabilitation of Tskaltubo WWTP has been defined. Hence the main tool for guiding environmental work under the Project is an EMF. It was prepared for the Project based on the similar documents in use by MDF for the ongoing RDPs. The EMF provides a blueprint for action for the conduct of the site-specific Environmental Impact Assessments (EIAs) and preparing EMPs.

53. The MDF is the Project's implementing entity. The MDF has a long history of implementing World Bank-supported projects, though its in-house institutional capacity for safeguards application and monitoring has been relatively weak until recently. However, the MDF has undergone a recent reorganization and has significantly improved its institutional capacity for safeguards management. An Environmental and Social Unit have been created within MDF and is staffed with professionals of adequate background and skills. Environmental and social specialists of the MDF will receive training from the World Bank's safeguard specialists, and will continue to be coached, as required. The MDF will also have an opportunity to supplement its in-house safeguards team with hired consultants as required, following the pattern used for the environmental supervision of the ongoing RDPs.

G. Other Safeguards Policies Triggered

54. The Project also triggers OP/BP 7.50 for Projects on International Waterways. The Project will finance rehabilitation of two or three dilapidated WWTPs; not all are identified at present. No new construction of WWTPs will be undertaken, so that no activity falls under environmental Category A. The Project will help to bring the selected existing WWTPs back in to operation after two decades of dysfunction that followed the breakup of the Soviet Union, Georgia's civil war, and the severe economic crisis of the early 1990s. Rehabilitation of WWTPs will result in the collection and treatment of wastewater, which is currently being directly released to the surface bodies of the Black Sea or the Caspian Sea watersheds. More specifically, WWTPs located in West Georgia discharge to the rivers or tributaries of rivers flowing into the Black Sea, and WWTPs located in East Georgia, may be discharging into trans-boundary rivers Mtkvari (Kura) and Alazani or their tributaries, Mtkvari being shared by Turkey, Georgia, and Azerbaijan, and Alazani being shared by Georgia and Azerbaijan. Rehabilitation of WWTPs will be designed to allow for water purification to World Bank, the EU and Georgian standards. Therefore, the Project will not adversely change the quality or quantity of water flows to the other riparians; and will not be adversely affected by the other riparians' possible water use. Accordingly, an exception to the riparian notification requirement under Paragraph 7(a) of OP 7.50 (rehabilitation of existing schemes) was sought by the task team and approved by ECA Regional Vice President, Philippe Le Houerou, on April 10, 2013.

Annex 1: Results Framework and Monitoring

Country: Georgia

Project Name: Supporting Sustainable Wastewater Management (P145040)

Results Framework

Project Development Objectives

PDO Statement

The objective of the Project is to promote sustainable wastewater management in Georgia and pilot the implementation of wastewater treatment plants.

These results are at | Program Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values										
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target	
Increased institutional and technical capacity for wastewater management. (Percentage)	0.00	0.00	25.00	50.00	100.00							100.00
Increased number of urban population in Project areas that have access to sustainable	0.00	0.00	0.00	40000.00	40000.00							40000.00

wastewater services. (Number)											
Decreased volume of discharges of untreated wastewater discharged in Project areas. (Number)	0.00	0.00	0.00	5000.00	5000.00						5000.00
Direct project beneficiaries (Number) - (Core)	0.00	0.00	0.00	40000.00	40000.00						40000.00
Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core)	0.00	0.00	0.00	50.00	50.00						20000.00

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
National Wastewater Management Strategy is guided and presented to GoG Cabinet	0.00		100.00	100.00	100.00						100.00

(Percentage)											
National Sludge Management Strategy is guided and presented to GoG Cabinet (Percentage)	0.00		50.00	100.00	100.00						100.00
National Discharge Limits to community sewage and separate storm-water systems, including pretreatment program is delivered and guided to GoG Cabinet (Percentage)	0.00		50.00	100.00	100.00						100.00
National Drinking Water Demand Management Strategy is delivered and guided for GoG approval (Percentage)	0.00		50.00	100.00	100.00						100.00
UWSC Phasing Plan for merit-based,	0.00		50.00	100.00	100.00						100.00

incremental construction of treatment plant infrastructure-5, 10, 15 yrs for mech'l, biological & nutrient reduction facilities, respectively for WWTP-incl reuse of (Percentage)											
Improved cost recovery for O&M for community wastewater services (WWTP and sewers) (Percentage)	0.00										25.00
No. of rehabilitated and operational WWTPs (Number)	0.00			1.00	2.00						2.00
Mass of Total Suspended Solids, TSS pollution loads removed by treatment plant supported under	0.00			800.00	800.00						800.00

the project (Tones/year)											
Mass of Biological Oxygen Demand, GOD5 pollution loads removed by treatment plant supported under the project (Tones/year)	0.00			450.00	450.00						450.00
Mass of Dried Sludge pollution loads removed by treatment plant supported under the project (Tones/year)	0.00			200.00	200.00	300.00	300.00				200.00

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Increased institutional and technical capacity for wastewater management.	Compliance per effluent discharges and sludge disposal	Annual	Progress Reports	MDF
Increased number of urban population in Project areas that have access to sustainable wastewater services.	Operational WWTP in selected Investment Grant location, with training phase completed	Annual	WWTP Contractor Completion Certificates, UWSC customer data base	MDF
Decreased volume of discharges of untreated wastewater discharged in Project areas.	Effluent treated in m3/day	Monthly	Progress Report	MDF
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.	Mid-Term and end project	Survey	MDF
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Mid-Term and end project	Survey	MDF

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
National Wastewater Management Strategy is guided and presented to GoG Cabinet	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
National Sludge Management Strategy is guided and presented to GoG Cabinet	Final WWMS in required GoG format	Biannual	Progress Report	MDF
National Discharge Limits to community sewage and separate storm-water systems, including pretreatment program is delivered and guided to GoG Cabinet	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
National Drinking Water Demand Management Strategy is delivered and guided for GoG approval	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
UWSC Phasing Plan for merit-based, incremental construction of treatment plant infrastructure-5, 10, 15 yrs for mech'l, biological & nutrient reduction facilities, respectively for WWTP-incl reuse of	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
Improved cost recovery for O&M for community wastewater services	Final WWMS in required GoG format	Biannual	Progress Reports	MDF

(WWTP and sewers)				
No. of rehabilitated and operational WWTPs	Compliance per effluent discharges and sludge disposal	Annual	Progress Reports	MDF
Mass of Total Suspended Solids, TSS pollution loads removed by treatment plant supported under the project	Compliance per effluent discharges and sludge disposal	Annual	Progress Reports	MDF
Mass of Biological Oxygen Demand, GOD5 pollution loads removed by treatment plant supported under the project	As defined by MoE permit approval for each WWTP (presumed at 25 mg/l)	Annual	Progress Reports	MDF
Mass of Dried Sludge pollution loads removed by treatment plant supported under the project	As defined by MoE permit approval for each WWTP	Annual	Progress Reports	MDF

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Increased institutional and technical capacity for wastewater management	Compliance per effluent discharges and sludge disposal	Annual	Progress Reports	MDF
Increased number of urban population that has access to sustainable wastewater services	Operational WWTP in selected Investment Grant location, with training phase completed	Annual	WWTP Contractor Completion Certificates, UWSC customer data base	MDF
Decreased discharges of untreated wastewater to receiving water bodies	Effluent treated in m3/day	Monthly	Progress Report	MDF
Direct project beneficiaries	Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage.	Mid-Term and end project	Survey	MDF
Female beneficiaries	Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female.	Mid-Term and end project	Survey	MDF

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
National Wastewater Management Strategy is guided and presented to GoG Cabinet	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
National Sludge Management Strategy is guided and presented to GoG Cabinet	Final WWMS in required GoG format	Biannual	Progress Report	MDF
National Discharge Limits to community sewage and separate storm-water systems, including pretreatment program is delivered and guided to GoG Cabinet	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
National Drinking Water Demand Management Strategy is delivered and guided for GoG approval	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
Study Tour for inspection of similar treatment technologies - and O&M/ management practices	Study Tour summary report on findings and applicability to Georgia	Annual	Participant Study Tour report	UWSCG & MDF
UWSC Phasing Plan for merit-based, incremental construction of treatment plant infrastructure-5, 10, 15 yrs for mech'l, biological & nutrient reduction facilit's, respectively for	Final WWMS in required GoG format	Biannual	Progress Reports	MDF

WWTP-incl reuse of				
Improved cost recovery for O&M for community wastewater services (WWTP and sewers)	Final WWMS in required GoG format	Biannual	Progress Reports	MDF
No. of rehabilitated and operational WWTPs	Compliance per effluent discharges and sludge disposal	Annual	Progress Reports	MDF
Mass of Total Suspended Solids, TSS pollution loads removed by treatment plant supported under the project	Compliance per effluent discharges and sludge disposal	Annual	Progress Reports	MDF
Mass of Biological Oxygen Demand, GOD5 pollution loads removed by treatment plant supported under the project	As defined by MoE permit approval for each WWTP (presumed at 25 mg/l)	Annual	Progress Reports	MDF
Mass of Dried Sludge pollution loads removed by treatment plant supported under the project	As defined by MoE permit approval for each WWTP	Annual	Progress Reports	MDF

Annex 2: Detailed Project Description

Description of Activities

1. The objective of the Project is to promote sustainable wastewater management in Georgia and pilot the implementation of wastewater treatment plants.
2. The Project encompasses environmental, social and economic components and shall focus on an integrated approach to improved wastewater management. Together with interventions by the Government of Georgia, municipalities in Georgia, bilateral donors and international financing institutions, the Project shall contribute to an overall improvement of the efficiency of the Water and Wastewater Sector in Georgia.
3. The realization of the development objective of the Project will be measured through the achievement of the following key results indicators:
 - Increased institutional and technical capacity for wastewater management.
 - Increased percentage of urban population that has access to sustainable wastewater services.
 - Decreased discharges of untreated wastewater into waterways.
4. The Project consists of the following two components:

Component 1: Technical Assistance (US\$2.620,194 million)

This component will finance studies, consulting services, training, workshop and study tours and will consist of the following activities:

Component 1: Technical Assistance (US\$2.620,194 million)

This component will finance studies, consulting services, training, workshop and study tours and will consist of the following activities:

(a) Provision of technical assistance to further develop the regulatory framework for improved wastewater treatment infrastructure.

(b) Training including: (i) wastewater management, including affordability, sustainability and cost recovery; (ii) on-the-job training in wastewater operation and maintenance, including sludge management, disposal and reuse of water resources and (iii) study tours on best practice of different sustainable wastewater technologies.

(c) Development of a policy for sludge management, including final disposal.

(d) Preparation of feasibility studies, engineering designs, construction supervision, monitoring and evaluation activities and provision of technical assistance to the Project Implementing Entity and the UWSC.

(e) Stakeholder consultations on wastewater management to promote public participation.

The targeted audience for training and technical assistance will include policy makers such as Ministry of Environment and Ministry of Regional Development and Infrastructure to the MDF – the Project Implementation Agency and UWSC who will manage the wastewater treatment plant after its completion.

Component 2: Investment Grants (US\$9.945,000 million)

This component will finance infrastructure investments (Investment Sub-project grants), including provision of works, goods and consultant services to rehabilitate and expand two to three wastewater treatment plants.

The potential investment will be selected based on the following criteria:

i) Rehabilitation of wastewater treatment infrastructure on existing sites in municipalities prioritized by the national government (to maintain an Environmental Assessment Category B ranking).

ii) Complementary to prior/ongoing investments (in conjunction with international financing institutions, such as Tskaltubo of the World Bank-funded Regional Development Project II at Imereti Region and Telavi of Regional Development Project at Kakheti Region) – to benefit from needed complementary “upstream” investments in the water and wastewater systems, such as network rehabilitation/ construction and customer demand management.

5. Over the three year period covered by the Project, it is expected that 2-3 projects in urban centers will be prepared and implemented. The projects are expected to bring about considerable improvements in environment and introduce sustainable management of wastewater.

6. Investment grants shall be used to promote important transition objectives, such as cost control, cost recovery and effective demand side management taking into consideration of customer affordability constraints.

7. Investment grants shall be carefully assessed on economic, financial and safeguards perspectives and least cost solutions should be promoted. Demand management programs linked to investments have demonstrated substantial reduction of water consumption, leading to less need for new investments and considerable reductions of chemical consumables and energy, and should be considered.

8. In all selected Subprojects, investment grant support shall clearly be used to address affordability constraints, reduce emissions and/or provide a more sustainable use of natural resources. The support should enable the Bank to provide funding for important water and wastewater projects, with clients who have limited debt service capacity which will lead to increased financial and environmental sustainability.

Sub-Project Selection Criteria and Eligibility

9. The municipalities will be chosen by MDF based on prioritization made by the national government for their potential for achieving quantifiable and measurable environmental improvements and reforms towards sustainable services based on cost recovery. In this respect, size of municipality, capacity of the overall and local branch of UWSC, reform orientation, affordability and additional support will be assessed. Once a municipality is selected, the MDF will be fully responsible for implementation, including procurement, disbursement of funds, financial management, supervision, safeguards monitoring and reporting.

10. Only municipalities that make a commitment to invest in wastewater treatment (i.e. have allocated land, prepared documentation, having WWTP as part of their investments priority plan) and for separate wastewater – storm-water collection networks, but due to funding limits are unable to realize their plans, will be eligible for investment grant support. Priority will be given to cases where the environmental benefit will be greater.

11. As a rule, investment grants shall be committed where requirements for improved cost recovery (for O&M costs, depreciation of assets as well as for new investments) are supported by municipalities.

Readiness

12. The Project is already under implementation. Under the TA component, the Terms of Reference to hire an international consulting firm to provide the following activities has been prepared and appraised: (a) provision of TA to support the Recipient in developing adequate policy framework documents for improved wastewater treatment infrastructure; (b) carrying out of on-the-job training in wastewater operation and maintenance, including sludge management, disposal and reuse of water resources; (c) carrying out of: (i) training on wastewater management, including affordability, sustainability and cost recovery; and (ii) study tours to learn about good practice of different sustainable wastewater technologies; (d) development of a policy for sludge management, including final disposal; and (e) carrying out of stakeholder consultations on wastewater management to promote public participation.

13. Under the Investment Subproject Grants component, preparation of the first Subproject under the Project, Tskaltubo Wastewater Treatment, is underway. Tender of works is expected to start in June 2015.

14. The Bank team has appraised the following Project level documents:

Overall Project level documents:

- Final draft Georgia Wastewater Management Strategy;
- Operations Manual;
- Financial management framework;
- RPF disclosed in InfoShop and MDF website on May 28, 2013 and is still valid;
- EMF disclosed in InfoShop and MDF website on May 28, 2013, 2012, and is still valid; and,

- Procurement Plan.

Investment Subproject and TA level documents:

- Feasibility study, including the cost-effective design option for Tskaltubo WWTP;
- SARs and Bid Documents for Tskaltubo WWTP;
- TORs for Advisory Service to UWSC;
- TORs for preparation Telavi WWTP Feasibility Study (potential second project under the program); and,
- TORs for undertaking EIAs for Tskaltubo and Telavi WWTPs.

Annex 3: Implementation Arrangements

Trust Fund Governance Structure

1. The Bank shall manage and administer the grant, and provide monitoring and supervision of recipient executed activities. Activities to be financed with the resources of the Trust Fund shall be subject to the prior approval of Sweden as per the following:
2. For activities in respect of the Investment Grant Component, MDF in consultation with UWSC will submit a work plan to the Bank. The Bank shall appraise and submit to SIDA a proposal in the form of a Subproject Appraisal Report, including a results framework, an indicative budget and a Checklist for Assessment of Individual Sub Projects; the form of which is to follow the Municipal Development Fund's Operations Manual for the Trust Fund. Each proposal shall be submitted to SIDA for its written approval prior to starting the bidding process by MDF.
3. An OM has been developed by MDF and approved by the Bank. MDF has agreed to follow the OM for both components of the project.
4. **Reporting:** An annual aggregate progress report shall report against the results framework (Annex 1). Annual progress reports and final reports shall consist of a narrative part and a financial part and shall report against the results frameworks for the project. The Bank will report to SIDA on three main indicators of achievement: a) measurable outcomes of improved infrastructure management and regulation; b) quantitative impact of the Projects on the existing status of infrastructure; and c) qualitative impact of the Projects.
5. The Bank shall provide SIDA with the annual progress report, financial and audit reports furnished to the Bank by the MDF, containing updated information on progress of the Projects against the benchmarks set in the Project Document and Results Matrix.
6. In addition to the above mentioned reports, the Bank shall share with SIDA, situation and evaluation reports, publications, press releases and updates, relevant to this Agreement, when available.
7. **Visibility:** Where reference is made to the activities financed with the resources of the contribution, either in official or public information documents, the Bank shall always acknowledge and make public that such activities were funded by Sweden.
8. The Municipal Development Fund (MDF) will be responsible for Project implementation in close coordination with the United Water Supply Company (UWSC). The MDF has become a solid non-bank financial intermediary (FI) that plays a substantial role in funding/implementing regional and municipal infrastructure development. The MDF has been successfully implementing a series of International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD)-financed regional and municipal development

projects since 1998. Its good performance is well appreciated and reflected by the Government's and donors' interest to use the MDF as the primary organization for channeling grants and credits to Georgian regions and local governments.

Financial Management, Disbursements and Procurement

Financial Management

9. The financial management (FM) functions of the Project will be managed by the MDF, which will be responsible for the planning and budgeting, accounting, financial reporting, flow of funds, internal controls, and auditing.

10. The FM arrangements of the MDF have been reviewed periodically as part of the on-going projects' implementation support and supervision missions (recent in July 2012) and found to be either moderately satisfactory or satisfactory. An assessment of the financial management arrangements for the Project was undertaken in November 2012 which confirmed that the FM arrangements at MDF are acceptable for the project implementation.

11. The MDF updated its Financial Management Manual (FMM) as part of the POM to reflect the specific activities and controls under the Project. In addition, within three months of the start of project implementation, the MDF will appoint an accountant who is experienced in implementing Bank financed projects to manage the increased workload. The Bank will provide a no-objection to the appointment. Those are capacity building actions and not conditions.

12. The overall FM risk for the Project before and after mitigation measures is moderate, with Inherent and the Control Risks of the project before and after mitigation measures also rated as Moderate.

13. The MDF has acceptable planning and budgeting capacity. The financial manager, the head of procurement, and the department managers are responsible for budget preparation, which is approved by MDF Supervisory Board. Procurement Plan and monthly plans of works' execution are developed based on the data provided by the Contractors to the Procurement and Financial Management. The draft budget, in the format of budget requisition forms (as established by the MOF) is prepared in Excel spreadsheets, while the budget endorsed by the MDF's Supervisory Board and approved by the MOF is entered into the budget module of ORIS Manager Software. All adjustments to the initial budget are approved by Supervisory Board.

14. The MDF has knowledgeable and experienced FM staff in place, with many years of experience in implementing Bank-financed projects. The FM staff consists of a financial manager, a chief accountant, three accountants, and a loan officer.

15. The MDF has an integrated accounting system in ORIS Manager Software with all required functionalities, including budgeting module, integrated accounting database, and automated modules for financial reporting (however, IFRs are not generated automatically). The software vendor will provide one year post implementation software maintenance in order to fix any possible bugs or to add new reporting formats, if required.

16. MDF adopted IFRs for the accounting and reporting purposes (accrual basis is used for financial reporting under the projects). It is agreed to adopt accrual basis for the reporting purposes under the new Project as well. The chart of accounts currently used is adequate and could be adapted for the purposes of new Projects.

17. The MDF's internal control system is satisfactory and improvements in procedures has ensured timely submission of consistently good quality of IFRs. The MDF's FMM was updated in June 2012 subsequent to reorganization, and adequately reflects FM arrangements under the projects. As a result of the MDF's reorganization, the Financial and Procurement divisions have been merged into the new Economic department, which is under direct reporting to the executive director of the MDF.

18. The reconciliation of all the projects' disbursement data with the WB Client Connection system occurs after each application is submitted to and accepted by the Bank. Reconciliation of the treasury/bank accounts with projects accounting records occurs after the payments are made via the Treasury/Bank-Client system. The MDF conducts annual stocktaking. All the data on fixed assets (FAs) are maintained in the ORIS Manager Software which has an integrated FA register. The FAs have inventory tags attached. Accounting data backups are currently made on a weekly basis on a network server hard drive, on a USB drive, and on CDs, and are kept in a fireproof safe. Daily backups are done on the network drive. There is no internal audit function within the MDF's organizational structure. Establishment of an internal auditor function should be considered taking into account the volume of activities conducted by the MDF.

19. Project management-oriented Interim Un-audited Financial Reports (IFRs) will be used for the project monitoring and implementation support and the indicative formats of these are included in the MDF FMM. The format of IFRs has been confirmed during assessment and includes: (i) Project Sources and Uses of Funds, (ii) Uses of Funds by Project Activity, (iii) Designated Account Statements, (iv) A Statement on Financial Position, and (v) SOE Withdrawal Schedule. The MDF will be producing a full set of IFRs every calendar semester throughout the life of the project. These financial reports will be submitted to Bank within 45 days of the end of each calendar semester. The first semester IFRs will be submitted after the end of the first full semester following the initial disbursement.

20. The audit of the Project and the entity financial statements will be conducted (i) by independent private auditors acceptable to the Bank, on terms of reference (TOR) acceptable to the Bank, and (ii) according to the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). MDF's current auditing arrangements and findings are satisfactory to the Bank. Thus it has been agreed that similar audit arrangements will be adopted for the Project. Particularly, the sample audit TORs agreed with the Bank is attached to the FMM, and the annual audited Project and Entity 5 financial statements will be provided to the Bank within six months of the end of each fiscal year, and for the Project also at the closing of the Project. If the period from the date of effectiveness of the grant to the end of the Recipient's fiscal year is no

⁵ The audit of the entity (MDF) financial statements is required to monitor the implementing entity's financial results and stability, which is critical for the project implementation.

more than six months, the first audit report may cover financial statements for the period from effectiveness to the end of the second fiscal year. The Recipient has agreed to disclose the audit reports for the project within one month of their receipt from the auditors, by posting the reports on the www.mdf.ge website or by publishing in a national newspaper. Following the Bank's formal receipt of these reports from the Recipient, the Bank will make them publicly available according to World Bank Policy on Access to Information. The contract for the audit awarded during the first year of project implementation may be extended from year-to-year with the same auditor, subject to satisfactory performance. The cost of the audit will be financed from the proceeds of the Project.

21. The MDF FM staff has significant knowledge of and experience in the Bank disbursement procedures. MDF will establish the Project's Designated Account (DA) in US dollars and maintain it until the Project completion. The DA will be opened as a Treasury's foreign currency account at the National Bank of Georgia (NBG) (where almost all DAs for ongoing Bank-financed projects in Georgian are held), and on terms and conditions acceptable to the Bank.

22. Project funds will flow from (i) the Bank, either: (a) via the DA to be maintained in the Treasury, which will be replenished on the basis of SOEs or full documentation; or (b) on the basis of direct payment withdrawal applications and/or special commitments, received from MDF; and (ii) the Government, via the Treasury through normal budget allocation procedures initiated by the implementing agency in accordance with standard Georgian Treasury and Budget execution regulations. Those funds will be used to finance eligible expenditures under the Project. Withdrawal applications documenting funds utilized from the DA will be sent to the Bank at least every three months.

23. The following disbursement methods may be used under the Project: Reimbursement, Advance and Direct Payment. The DAs ceiling is proposed to be established at US\$750,000, which will be finalized and reflected in the Disbursement Letter, where the detailed instructions on withdrawal of the Project proceeds are provided.

Disbursements

24. To facilitate timely disbursements for eligible expenditures, the MDF will establish a Designated Account (DA) in US dollars and maintain it until Project completion. The DA will be opened as a Treasury's foreign currency account at the NBG, on terms and conditions acceptable to the Bank. The DA will be drawn upon to meet payments to contractors, suppliers and consultants under the Project. The DA Statement will be audited in conjunction with the annual audit of the Project. Detailed instructions on withdrawal of IDA credit proceeds are provided in the Disbursement Letter.

25. Project funds will flow from (a) the Bank, either through the DA, to be maintained in the Treasury, which will be replenished on the basis of SOEs or full documentation, or on the basis of direct payment withdrawal applications and/or special commitments, received from the MDF; and (b) the Government, via the Treasury, through normal budget allocation procedures initiated by the implementing agency, according to standard Georgian Treasury and Budget execution

regulations. The funds will be used to finance eligible expenditures under the Project. Withdrawal applications documenting funds drawn from the DA will be sent to the Bank at least every three months.

26. The following Disbursement Methods may be used under the Grant:

- Reimbursement
- Advance
- Direct Payment

27. The Disbursement Deadline Date is 4 months after the Closing Date specified in the Grant Agreement. Any changes to this date will be notified by the World Bank. The Minimum Value of Applications for Reimbursements and Direct Payments is US\$400,000. Requests for Reimbursement or reporting eligible expenditures paid from the DA records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments against contracts valued at US\$400,000 or more will be required. Requests for Direct Payment: records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices will be required.

28. The disbursement categories and percentage of SIDA financing are provided in table below.

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (exclusive of Taxes)
(1) Goods, works, consultants' services and Training	10.052,155	100%
TOTAL AMOUNT	10.052,155	

Procurement

29. MDF currently conducts the procurement for the RMIDP, RMIDP-AF, RDP, RDP II and will continue to do so under the Project, in accordance with the “Guidelines for Procurement of Goods, Works, and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Recipients” (January 2011), and “Guidelines for Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Recipients” (January 2011) and provisions in the Legal Agreement.

30. The Bank’s anti-corruption norms (“Guidelines on Preventing and Combating Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”) of October 15, 2006 and revised in January 2011, will be applied.

31. **Country and sector level risks.** The latest country-level risk assessment for public procurement was conducted during the preparation of the Country Procurement Assessment Report (CPAR) in 2009. It was based on the OECD-DAC/World Bank four pillars for public procurement. The conclusion was that all four pillars needed to be improved in order for the system to meet international standards and best practices. A three-year action plan was prepared

and Georgia is making progress towards meeting it. One important completed step was the implementation of an electronic procurement system for all government contracts. The Bank team assessed Georgian Government E-procurement system. The assessment identified those improvements/modifications required to the E-Procurement system in order to meet the MDBs requirements for procurement of civil works/goods, State Procurement State Procurement Agency undertook such modification, which has been finalized. The Bank has endorsed use of Georgian Government E-Procurement System with respective modifications, for procurement of civil works with estimated contract price of US\$10M in Equivalent or less and for procurement of goods with estimated contract price of US\$1M in equivalent or less. Modified E-Procurement system can be used under NCB and SH procurement methods.

32. **Procurement risk assessment and mitigation measures.** MDF implements several projects financed by the World Bank, by the State budget, as well as by other IFIs. Therefore, the risk that MDF may not have sufficient staff and time to coordinate procurement under the Project was identified. Also, the contract management function exists, but needs to be strengthened to avoid implementation delays. To mitigate this risk, it has been agreed with MDF that the head of the Procurement Division, who is currently assigned to RDP and RDP II, will be assigned almost full time to the project. This means procurement will be managed much more effectively.

33. The Project procurement risk is rated “Moderate”, following application of mitigation measures.

34. **Organization.** Procurement will be carried out by the Procurement Division of the MDF, which is the implementing agency for the Project. The Division has eight staff (head of division, two chief procurement specialists, one senior procurement specialists, and four procurement specialists). In addition to the regular procurement functions, the division head is responsible for overall monitoring and management of the unit. The procurement staff has experience carrying out procurement under World Bank guidelines, and attended training courses in Georgia and abroad. Two of the procurement specialists attended the Regional Fiduciary Workshop in Tbilisi, in June 2012.

35. Decision-making process is formalized. Each decision of the evaluation group, as well as of the tender commission, is described in minutes of meetings. The decree which describes each department’s responsibilities is approved by the Board of Directors.

36. **Records.** Generally, MDF’s records are acceptable. All records are kept in the MDF Procurement Unit. Files include copies of advertisements, minutes of bid openings, bid evaluation reports and other documents related to procurement. Valuable documents (bid/performance securities, originals of bids/technical/financial proposals etc.) are kept in a safe. After a contract is completed, the contract as well as all supporting procurement documents is transferred to the Procurement Archive. No special system is in place, but required documents can be easily obtained manually. One procurement specialist is specifically assigned to handle the archive function. Records in the Archive as well as the Procurement Unit are protected from loss or damage.

37. A post review of procurement actions will be conducted once a year. At least one out of five procurement packages not subject to Bank’s prior review will be examined ex-post.

38. The procurement procedures, along with the thresholds for Bank review, are described below as well as in the Procurement Plan (PP). The PP will be updated as agreed with the Bank task team annually or as required to reflect the actual project implementation needs.

- i) Procurement of goods and non-consulting services. Goods and non-consulting services estimated to cost US\$1.0 million equivalent and more will be procured through ICB. Goods, and non-consulting services estimated to cost less than US\$1.0 million may be procured through NCB, and less than US\$100,000 through shopping.
- ii) Procurement of works: Works contracts estimated to cost more than US\$10 million equivalent will be procured through ICB. Those estimated to cost US\$10 million or less may be procured through NCB, and less than US\$200,000 through shopping.
- iii) Selection of consultants. Consulting services will be procured according to the Bank’s Consultant Guidelines mentioned above. The Bank’s Standard RFP (revised in October 2011) will be used to select all consulting firms. Consultant selection methods will include Quality and Cost-Based Selections (QCBS), Fixed-Budget Selection (FBS), Consultant Qualifications (CQS), Least-Cost Selection (LCS), Single-Source Selection (SSS) and Individual Consultants (IC). The latter will be selected according to Section V of the Consultant Guidelines. This method will require comparing at least three qualified and available candidates.
- iv) Short lists composed entirely of national consultants. Short lists of consultants for services estimated to cost less than US\$300,000 equivalent per contract may be composed entirely of national consultants, according to the provisions of paragraph 2.7 of the Consultant Guidelines.

39. **Prior Review Thresholds:** For goods and works and services other than consulting services:

Expenditure Category	Method	Prior Review Thresholds
1. Goods	ICB	All contracts
	NCB	As agreed in PP
	SH	As agreed in PP
	DC	As agreed in PP
2. Works	ICB	All contracts
	NCB	As agreed in PP
	SH	As agreed in PP
	DC	As agreed in PP

40. For consulting services:

Expenditure Category	Method	Procurement Method Thresholds	Prior Review Thresholds
3. Cons. Services firms	QCBS		As agreed in PP
	FBS		As agreed in PP
	QBS		As agreed in PP
	LCS		As agreed in PP
	CQS	≤ \$300 K	As agreed in PP
	SSS		As agreed in PP
4. Cons. Services individuals	IC		As agreed in PP

Particular Methods of Procurement of Goods and Works

- i) Except as otherwise provided in table below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding (ICB).
- ii) Other methods. The following table specifies the methods of procurement, other than ICB, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method

(a) National Competitive Bidding, subject to the additional provisions set forth in below:

- (i) “Open competitive procedures” (i.e., “public tender”) shall be the default rule. A single envelope procedure shall be used for the submission of goods, works, or non-consulting services.
- (ii) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids. Advertisements published in foreign language newspapers shall be in compliance with such a 30-day-minimum in number of days for bids preparation and submission.
- (iii) Bidding shall not be restricted to pre-registered firms. If registration is required, it shall not be denied to eligible bidders for reasons unrelated to their capacity and resources to successfully perform the contract (e.g., mandatory membership in professional organizations, classification, etc.). Post-qualification shall be conducted to verify that the bidder has the capability and resources to successfully perform the contract.
- (iv) Government-owned enterprises in Georgia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the Government. Government-owned enterprises will be subject to the same bid and performance security requirements as other bidders.
- (v) Procuring entities shall use the appropriate Bank’s sample bidding documents, including pre-qualification documents, for the procurement of goods, works, or non-consulting services, and such documents shall contain draft contract and conditions of contract including clauses on fraud and corruption, audit and publication of award, all acceptable to the Bank.
- (vi) Bids shall be opened in public, immediately after the deadline for submission of bids. Bidder’s representatives shall be permitted to attend the bid opening.
- (vii) Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be requested without the prior approval of the Bank.
- (viii) Evaluation of bids shall be based on quantifiable criteria expressed in monetary terms as defined in the bidding documents, no merit point system and no domestic preference shall be used in the evaluation of bids. Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid and no negotiations shall be carried out prior to contract award.

(ix)	Civil works contracts of long duration (e.g., more than eighteen (18) months) shall contain an appropriate price adjustment clause.
(x)	No bid shall be rejected purely on the basis that the bid price is higher than the estimated budget for that procurement. All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
(b) Shopping	
(c) Direct Contracting	

Environmental and Social (including safeguards)

41. The Project involves financing of physical works with possible impact on the natural environment and social conditions within the target region of the country. Therefore, it triggers the OP/BP 4.01 Environmental Assessment. The Project will not invest in the construction of new WWTPs and, therefore, it does not carry the common risks of new construction. However, rehabilitation of the existing WWTPs, which have been out of operation for the extended periods of time, may require replacement and/or addition of sewage piping and other elements of infrastructure. Other typical risks of medium size construction works will also have to be considered and handled. The most important issue of the operation phase would be the management of sludge, especially because the country lacks a solid waste management system and infrastructure that would provide straightforward arrangements for sludge acceptance and disposal. Nonetheless, the environmental risks of the construction and operation phases of the Project are fully manageable and none of them is expected to have significant, long term or irreversible impacts on the natural environment. The scope and nature of the potential environmental impact of the Project is expected to be moderate and the Project is classified as environmental Category B. Because the Project will finance generally similar activities in various locations, an Environmental Management Framework (EMF) was developed in the course of its preparation. EMF provides guidance for screening and risk assessment of individual investments under the Project and provides methods for further environmental work depending on the screening outcomes. Site-specific Environmental Impact Assessments will be carried out and Environmental Management Plans (EMPs) developed in agreement with the EMF, published, and discussed with relevant stakeholders prior to tendering of works at any individual site.

42. Discharged water quality standards applicable to the wastewater treatment plants to be rehabilitated under the Project will be in line with EU directives and will differ for release into regular water bodies and water bodies of high sensitivity. Parameters to be used for measuring discharged water quality will include concentration of suspended particles, biological oxygen demand (BOD) and chemical oxygen demand (COD). The technical assistance to be provided by the Project will be used for improving institutional and regulatory framework for sustainable management of waste water in country, including introduction of innovative technologies of wastewater treatment feasible in the Georgian context. The recently developed national Wastewater Management Strategy will be a guiding document for technological improvements.

43. The Project also triggers OP/BP 7.50 for Projects on International Waterways. The Project will finance rehabilitation of two or three dilapidated WWTPs; not all are identified at

present. No new construction of WWTPs will be undertaken, so that no activity falls under environmental Category A. The Project will help to bring the selected existing WWTPs back to operation after around two decades of dysfunction that followed the breakup of the Soviet Union, Georgia's civil war and severe economic crisis in the early 1990s. Rehabilitation of WWTPs will result in the collection and treatment of wastewater, which is currently being directly released into the Black Sea or the Caspian Sea watersheds. Therefore, the Project will not adversely change the quality or quantity of water flows to the other riparians; and will not be adversely affected by the other riparians' possible water use. Accordingly, an exception to the riparian notification requirement under Paragraph 7(a) of OP 7.50 (rehabilitation of existing schemes) was sought by the task team and approved by ECA Regional Vice-President, Philippe Le Houerou, on April 10, 2013, and is still valid.

44. Because the Project will finance rehabilitation of the existing wastewater treatment plants, all of which had been placed on publicly owned land plots, no land appropriation and physical relocation are expected to occur. There is a minor likelihood of informal land use in proximity to the existing non-operational treatment plants which would be terminated upon the Project intervention. Also, there is a possibility of temporary relocation and/or loss of income or productive assets during construction. These aspects will be taken into consideration in the course of site selection and screening in accordance with the provisions of EMF documents, and if occurrence of informal land use is identified, the client will be obligated to develop Resettlement Action Plans (RAPs) and handle compensation in full agreement with the principles provided in the RPF. Works contractor may not be mobilized to a work site unless the process of compensation is completed and all requirements of RAP are met.

45. The MDF is the Project's implementing agency. The MDF has a long history of implementing World Bank-supported projects, though its in-house institutional capacity for safeguards application and monitoring has been relatively weak until recently. However, the MDF has undergone a recent reorganization and has significantly improved its institutional capacity for safeguards management. An Environmental and Social Unit is has been created within MDF and is staffed with professionals of adequate background and skills. Environmental and social specialists of the MDF will receive training from the World Bank's safeguard specialists, and will continue to be coached, as required. The MDF will also have an opportunity to supplement its in-house safeguards team with hired consultants as required, following the pattern used for the environmental supervision of the ongoing Regional Development Projects.

Monitoring and Evaluation

46. The MDF will be responsible for monitoring/evaluating the Project outcomes against agreed indicators listed in the Results Framework. The MDF capacity in data collection and analysis will be strengthened by an international M&E consulting firm whose services will be obtained through Component 1. The M&E consulting firm, together with the MDF, will compile the baseline data, which will be available in the SARs and economic analysis report, and collect more primary data from the government agencies and through field visits/surveys. The PDO indicators in the Results Framework, as well as general tourism development indicators, will be monitored on an annual basis. The intermediate indicators will be monitored bi-annually.

Role of Partners

47. To date, The European Investment Bank (EIB) and World Bank (under RDP II) finance rehabilitation of water and sewerage networks in Tskaltubo and Telavi, which will directly supplement SIDA financing under the Project. The EU has provided TA to prepare the Imereti Regional Development Strategy, which includes a medium-to-long term investment plan that anticipates both public and private capital needs. The German Technical Cooperation (GiZ) provides TA to prepare the Kakheti and Samtskhe-Javakheti Regional Development Strategies, including capacity building at the municipal and regional levels.

Annex 4: Operational Risk Assessment Framework (ORAF)

Risks

1. Project Stakeholder Risks

1.1 Stakeholder Risk	Rating	Moderate				
<p>Risk Description:</p> <p>The Project intends to reach large groups of beneficiaries with varied interests including residents and the business community. This may create competition for scarce resources.</p> <p>There is a low probability risk of resistance certain of stakeholders who may not benefit directly from the Project.</p>	Risk Management:					
	1. Consultation workshops will be held regularly with all stakeholders					
	Resp: Bank	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency: Quarterly
	Risk Management:					
	<p>Mitigating factors against a deepening of the Euro zone crisis include a flexible exchange rate policy, comfortable foreign exchange reserves, market access and the Precautionary Standby Arrangement and Standby Credit Facility from the IMF. The Government remains committed to fiscal consolidation in the medium-term and it is currently finalizing its Socioeconomic Development Strategy, Georgia 2020, which focuses on increasing competitiveness, human capital development, and access to finance to support growth recovery and ensure high and sustainable growth in the medium to long term.</p>					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent:	Due Date:	Frequency:

	Risk Management: Mediation efforts continue with the support of international and bilateral partners. The CPS will monitor this external context carefully and mitigate the risk to the project through pro-actively adapting it as needed.					
	Resp: Both	Status: In Progress	Stage: Both	Recurrent:	Due Date:	Frequency :
2. Implementing Agency (IA) Risks (including Fiduciary Risks)						
2.1 Capacity	Rating	Moderate				
Risk Description: 1. Despite MDF's solid implementation capacity, there is a risk of delays or weak supervision of works due to increased work load (MDF now implements several other projects financed by ADB, USAID and EU). 2. There may be overloading of existing procurement staff.	Risk Management: 1. The Project will support institutional capacity building by sharing with the counterparts the knowledge and experience from other countries where these innovative practices were successfully implemented. 2. MDF assigned Head of Procurement Division as a key person for all procurement related issues under the Project. An additional procurement specialist, whose qualifications are acceptable to the Bank, shall be engaged in the project and support Head of Procurement Division. 3. MDF put in place improved contract management procedures and dedicated staff. 4. MDF hired independent consultants to provide supervision support and write progress reports. 5. Biannual progress reports will be submitted to the Bank following specific template as per the OM.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency Quarterly
2.2 Governance	Rating	Moderate				
Risk Description: 1. There is a moderate risk of outside interference but this is attenuated by the	Risk Management: 1. Establishment of a Supervisory Board, which proved to be functioning well. 2. Carry out several consultation workshops to share information and reach out to broad stakeholders. 3. Additional measures have been applied to increase competition among contractors,i.e. advertising					

<p>fact that MDF has proved to have a strong standing that can effectively shield the Project from outside interference.</p> <p>2. There is a moderate risk of low participation among bidders due to the current active construction period in Georgia.</p>	<p>Special Procurement Notes (SPNs) for 3 consecutive days, allowing the use of bid security declaration form, allowing letters from banks to confirm provision of credit facilities to contractors to meet the cash flow requirements during implementation.</p>											
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency Quarterly						
	<p>Risk Management:</p> <p>1. The Project will establish and maintain a formal internal control framework described in the OM. The Bank staff will closely monitor performance during implementation. An FM capacity building activities will be implemented.</p> <p>2. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines, stipulated in the Financing Agreement.</p>											
<table border="1"> <tr> <td>Resp: Client</td> <td>Status: Not Yet Due</td> <td>Stage: Implementation</td> <td>Recurrent: <input checked="" type="checkbox"/></td> <td>Due Date:</td> <td>Frequency :</td> </tr> </table>							Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency :
Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency :							
Fraud and Corruption		Rating	Moderate									
<p>Risk Description:</p> <p>This risk is rated as Moderate.</p>	<p>Risk Management:</p> <p>1. The Project will establish and maintain a formal internal control framework described in the OM. The Bank staff will closely monitor performance during implementation. An FM capacity building activities will be implemented.</p> <p>2. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines, stipulated in the Financing Agreement.</p>											
	Resp: Client	Status: Not Yet Due	Stage: Implementation	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency :						
3. Project Risks												
3.1 Design		Rating	Moderate									
<p>Risk Description:</p> <p>Multiple activities with local and central level agencies may hinder timely and quality implementation of the Project.</p>	<p>Risk Management:</p> <p>1. During preparation, a thorough system of screening and evaluating Project activities has been established and applied to ensure that proposed subproject investments are in line with the priority identified in the operational manual, where the responsibility and accountability of the agencies at different levels are clearly defined.</p>											

	Resp: Bank	Status: Completed	Stage: Preparation	Recurrent:	Due Date: 21-Sep-2013	Frequency:
3.2 Social and Environmental	Rating	Moderate				
Risk Description:	Risk Management:					
Description:	1.1 An Environmental Management Framework (EMF) was prepared and disclosed prior to the Project appraisal. The EMF will be used as a mandatory guide for environmental screening, classification, review, and approval of individual investment.					
1. There is no full and detailed upfront vision of all safeguards risks associated with the Project implementation as individual investments will be defined and designed on the rolling basis.	1.2. A Resettlement Policy Framework (RPF) was prepared and disclosed prior to the Project appraisal. It sets out general principles of handling possible types of resettlement, in the event they occur.					
	Resp: Client	Status: Completed	Stage: Preparation	Recurrent:	Due Date: 21-Sep-2013	Frequency:
2. The country lacks solid waste management system and infrastructure that would allow making simple arrangements for the delivery and disposal of sludge generated at the rehabilitated wastewater treatment plants.	Risk Management:					
	2. The Bank reviewed and approved site-specific EMPs/ERs and RAPs, as required for all identified investments. Prior to the commencement of the works, MDF shall ensure that the owners and users of the land where said works are to be implemented are fully compensated in accordance with the provisions of the RAP(s).					
3. Supervision of contractors' environmental performance by the MDF has been a relative weakness of this entity under the ongoing Regional Development Projects. The capacity of MDF's safeguards team is modest and overstretched under the load of the vast portfolio of the MDF.	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency:
	Risk Management:					
	3. MDF has put in place and will maintain throughout Project implementation, arrangements for safeguards supervision and reporting satisfactory to the Bank. This would include special provision for the technical supervision of works in proximity to the sensitive receptors. An international consulting firm has been hired to assist MDF in construction supervision, including all aspects of environmental and social safeguards compliance.					
	Resp: Client	Status: In Progress	Stage: Both	Recurrent: <input checked="" type="checkbox"/>	Due Date:	Frequency:
3.3 Program and Donor	Rating	Low				
Risk Description:	Risk Management:					
Description:	1. There are ongoing good coordination mechanisms among donors in Georgia.					
Donors active in regional development may	2. The Bank has already started to take the lead in organizing semi-annual donor coordination					

<p>adopt inconsistent approaches in different regions, or may implement overlapping activities. Given past experience of donor coordination in the sector, and the good role MDF and its Supervisory Board play, the likelihood and impact of any disagreements or overlap among donors are low.</p>	<p>meetings, to ensure synergy among regional development interventions in Kakheti and Imereti. 3. Donor coordination meeting will continue through the implementation of the Project.</p>					
<p>3.4 Delivery Monitoring and Sustainability</p>	<p>Rating</p>	<p>Moderate</p>				
<p>Risk Description: Description: 1. Due to the geographic spread of Project activities, there is a moderate risk that some outputs delivered under the Project will be of low quality. 2. Due to a large number of agencies and stakeholders involved, there is a moderate risk that the voice of some groups will not be heard.</p>	<p>Risk Management: 1. The Bank Team agreed with the Government and MDF hired an international construction supervision firm that would provide quarterly construction supervision reports to MDF. 2. MDF will submit quarterly progress reports to the Bank. 3. The TTL is located in Tbilisi CO and will carry out monthly site visits to implementation sites with locally hired engineering consultants. 4. A multi-agency working group has been established and worked efficiently during Project preparation. 5. Stakeholders consultation workshops will be held bi-annually to present Project implementation progress and future plans. 6. Subprojects will be selected based on economic and cost-benefits analysis. 7. Subproject Appraisal Reports (SARs) for all proposed subprojects discussed investments' technical and economic feasibility, and analyzed responsibility and the availability of funds for operations and maintenance of the restored assets to ensure sustainability.</p>					
	<p>Resp: Client</p>	<p>Status: Not Yet Due</p>	<p>Stage: Both</p>	<p>Recurrent: <input checked="" type="checkbox"/></p>	<p>Due Date:</p>	<p>Frequency Quarterly</p>
<p>4. Project Team Proposed Rating Before Review</p>						
<p>Overall Preparation Risk: Moderate</p>			<p>Overall Implementation Risk: Moderate</p>			
<p>Risk Description:</p>			<p>Risk Description:</p>			

<p>Multiple activities with local and central level agencies may hinder timely and quality implementation of the Project.</p>	<p>Implementation Capacity: Despite MDF's solid implementation capacity, there is a risk of delays or weak supervision of works due to MDF's increased work load. MDF currently implements several other projects financed by ADB, USAID and EU in addition to the Bank financed RMIDP, RDP and RDP II projects. To mitigate this risk, MDF has set up a contract management division and has designated procurement staff responsible for implementation of this Project. Furthermore, MDF will hire an independent consulting firm to provide construction supervision support and prepare progress reports. Another firm will be hired to provide performance monitoring support.</p>
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5. Overall Risk

<p>Overall Preparation Risk: Moderate</p>	<p>Overall Implementation Risk: Moderate</p>
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<p>Risk Description: The Project builds on a series of successful engagements with the Government of Georgia using the same governance structure and the same implementing agency. If the risks materialize, the impact on the achievement of the PDO is expected to be moderate. However, based on the Bank's and MDF's past experience in implementing municipal development projects, the likelihood of most risks materializing is low. This supports rating the overall Project risk as moderate.</p>	<p>Risk Description: The Project builds on a series of successful engagements with the Government of Georgia using the same governance structure and the same implementing agency. If the risks materialize, the impact on the achievement of the PDO is expected to be moderate. However, based on the Bank's and MDF's past experience in implementing municipal development projects, the likelihood of most risks materializing is low. This supports rating the overall Project risk as moderate.</p>
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Nondisclosable Information for Management Attention (Optional)

<p>Risk Description:</p>

Annex 5: Implementation Support Plan

Strategy and Approach for Implementation Support

1. The implementation support strategy was developed in a way that considered the risks and mitigation measures identified in the ORAF, and provided flexible targets.
2. **Procurement.** Support will include: (a) timely advice from the country office-based procurement officer on various issues and on the Bank's Procurement Guidelines; (b) monitoring progress against the procurement plan. The procurement specialist is based in Tbilisi and works with MDF on a daily basis.
3. **Financial management (FM).** The Bank will conduct risk-based financial management implementation support and supervision mission within a year of the project's effectiveness, and then at appropriate intervals. In addition, the regular IFRs and annual project audit reports will be reviewed by the Bank. As required, a Bank-accredited Financial Management Specialist will assist in the implementation support and supervision process.
4. **Environmental and social safeguards.** The Bank's environmental and social specialists will provide regular support to strengthen the MDF capacity to tackle safeguards-related issues. Also, its specialists will closely monitor implementation of the agreed EMP and will provide guidance to the client to address issues that may arise. The specialists are based in Tbilisi and can provide daily support.
5. **Operations support.** The Bank Task Team Leader, who is also the Program Leader for the South Caucasus, is based in the Georgia country office. He has been communicating regularly with the client during Project identification and preparation. Supported by an operations specialist, and local and international short-term consultants, he will continue providing support during implementation, including monthly visits to all Project sites, especially in the first year. Also, he will keep the Bank team apprised and provide implementation support and guidance to the MDF, when needed.

Implementation Support Plan

6. The Project team will provide timely implementation support through daily supervision since, besides the Task Team Leader, several other team members are based in the region and local offices. The team will provide the following:
 - **Technical inputs:** Engineers, tourism and cultural heritage consultants will make regular site visits and review documents to ensure they comply with plans, quality, safeguards and timetables.
 - **Fiduciary requirements and inputs:** The procurement specialist, based in the Georgia country office, and the FM specialist, based in Armenia, will support implementation. The FM specialist will conduct risk-based FM missions within a year after Project effectiveness, and then at appropriate intervals, while the procurement supervision will be conducted according to Bank guidelines.

- **Safeguards:** The environmental specialist, based in Georgia, and social development specialists, based in the Washington DC headquarters, will supervise the EMP and RPF. They will all conduct semi-annual field visits to monitor implementation of safeguards.

Annex 6: Team Composition

Time	Focus	Skills Needed	Resource Estimate (Support Weeks/SWs)
First 12 months	Technical review of the SARs	TTL, water and wastewater engineers, safeguards specialists	10 SWs
	Procurement review of the bidding documents	Procurement specialist	4 SWs
	Project implementation support	Cultural heritage specialist, water and road engineers	8 SWs
	FM and disbursements	Senior FM specialist	2 SWs
	Environmental and social supervision	Senior environmental specialist	8 SWs
	Operations support with project supervision and coordination	Operations specialist	4 SWs
	Task management	Task Team Leader	4 SWs
12-36 months	Project implementation support	Water and wastewater engineers	20 SWs
	Procurement support	Procurement specialist	6 SWs
	FM and disbursements	Senior FM specialist	6 SWs
	Environmental and social supervision	Senior environmental specialist	12 SWs
	Operations support with project supervision and coordination	Operations specialist	6 SWs
	Task management	Task Team Leader	12 SWs

Skills Mix Required

Skills Needed	Number of Staff Weeks 2013-2016	Number of Trips	Comments
Task team leader (Program Leader)	21	Field trips as required	In country office
Sr. Operations officer	21	Field trips as required	Washington DC
Environmental specialist	21	Field trips as required	In country office
Social specialist	21	Field trips as required	In country office
Procurement specialist	12	Field trips as required	In country office
FM specialist	10	Field trips as required	In Armenia country office
Water and wastewater engineer	20	Six	In Europe
Short-term consultants for supervision	32	Field trips as required	In country office
Program Assistants	20	Field trips as required	In country office