

The CEE Bankwatch Networks Mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation

**Bulgaria:**

Centre for Environmental Information and Education (CEIE)

Environmental Association Za Zemiata (For the Earth)

**Czech Republic:**

Centrum pro dopravu a energetiku

Hnutí Duha

**Estonia:**

Estonian Green Movement-FoE

**Georgia:**

Green Alternative

**Hungary:**

Nature Protection Club of Eotvos Lorand University (ETK)

National Society of Conservationists-FoE (NSC)

**Latvia:**

Latvian Green Movement

**Lithuania:**

Atgaja

**Macedonia:**

Eko-svest

**Poland:**

Polish Green Network (PGN)

Institute of Environmental Economics (IEE)

**Russia:**

Sakhalin Environment Watch

**Slovakia:**

Friends of the Earth - Center for Environmental Public Advocacy (FoE-CEPA)

**Ukraine:**

National Ecological Centre of Ukraine (NECU)



**To: Executive Directors of European Bank for Reconstruction and Development**

One Exchange Square  
London EC2A 2JN  
United Kingdom

February 14, 2008

Dear Madam/Sir,

We would like to draw your attention to the Euro 25 million Tbilisi Water Supply Improvement Project<sup>1</sup>, approved by the EBRD on July 10, 2007 and the subsequent significant changes concerning the rationale for the project, and to ask the EBRD to withdraw its approval for the project.

Most importantly, **the project beneficiary has changed from a public to a private company** because of the sudden privatization of the Tbilisi Water company, which was not envisaged in the EBRD project. As a result the assessments carried out by the EBRD on the beneficiary's ability to carry out the project no longer apply. In addition the preparation of a Public Private Partnership originally stated as one of the aims of the project will not be able to materialize.

Due to other changing circumstances described in detail below, the project's reality would not reflect the project conditions as they have been presented to the public in the Project Summary Document and as they were presented to the Board of Directors at the time of the project approval. We therefore believe that the project should be stopped from receiving EBRD finance at the current time.

**Background developments**

A few days after the EBRD approved the Tbilisi Water Supply Improvement Project, Tbilisi City Hall and the Ministry of the Economy announced a privatization tender for the Tbilisi water supply company and supply system. On October 27, 2007 a little-known Swiss company Multiplex Solutions was announced as the owner of the Tbilisi Water Company. Multiplex Solutions, has, according to media reports, no experience with managing water supplies, and it is far from clear whether this company will prove to bring improvements in Tbilisi's water system.

The contract between the Ministry of the Economy and Multiplex Solutions has not yet been signed, and it is vital to note that the tender was announced without any decision by Tbilisi City Council, **thus violating the Georgian law on Privatization paragraph 3(5)**. As long as the Tbilisi Water Company is municipally-owned a decision on its privatization has to be taken by Tbilisi City Council, thus rendering this privatization illegal. The ownership of the

<sup>1</sup> <http://www.ebrd.com/projects/psd/psd2007/37321.htm>

Tbilisi Water Company and therefore the beneficiary of the EBRD Tbilisi Water Supply Improvement Project is now uncertain.

The decision to privatize the Tbilisi Water Supply System was also made unexpectedly, without any public consultations, which also violates international norms<sup>2</sup>. In addition the only information related to the privatization deal involves the price paid, and that the company has promised to preserve the existing tariff for the next two years.

One of the major problems related to this issue is the fact that in Georgia there is no independent regulatory body to regulate the activities of the company, determine the drinking water price and put the necessary mechanisms in place to ensure the availability of drinking water and sanitary services to all sectors of the population. Until now the price has been proposed by Tbilisi Water and approved by City council. However, the non-transparency of the economic valuation and methodology of price calculation has been constantly under question by the public and media.

### **Problems related to the EBRD project**

Further to our previous letters to the EBRD on the problems of the Tbilisi Water Supply Improvement Project, we would like once more to stress that if the EBRD undertakes future water projects in Tbilisi and Georgia generally there is a serious need to ensure wide public consultations around the different components of the project in order to address all of the problems raised by the project and develop mechanisms for their solution.

First of all the problems of independent regulation of water prices, as well as mechanisms to make accessible the drinking water supply and sanitary services for all sectors of the population need to be addressed. It should be noted that in some EBRD projects addressing water problems in Georgia (eg. the Kobuleti water project), the PSD stresses the EBRD's intention to "support introduction of tariff reform within affordability limits including support to low income groups", while in other projects like the Tbilisi water project this important element is missing.

Taking into account the existing problems in this area and the number of water projects that the EBRD plans to develop in Georgia it is important to ensure that the government puts in place an independent regulatory body to regulate tariff reform in different parts of Georgia.

Another major issue is the collective metering of houses envisaged by the EBRD project. The idea of collective meters has been from the beginning rejected by NGOs and experts as unconstitutional. This system is known to function reasonably well in more wealthy countries, but where bill non-payment levels are higher experience indicates that collective meters can cause tensions within the community. In 2007 the Tbilisi Water Company started to install collective water meters in some Tbilisi districts. However, in the Vashlijvari district, where the installation of the collective meters was completed in April 2007, people still pay fixed water fees of 800ltr of water per day per person, despite the fact that collective bills show that consumption is much lower. This raises doubts about the effectiveness of collective metering from one side and represents a clear violation of citizens' rights.

According to the Pre-feasibility study for the project in Tbilisi, individual metering would require the installation of at least 4 water meters in each apartment, significantly increasing the project costs. For that reason the idea of installing individual water meters was rejected. However, it is not clear why four water meters were mentioned when there is only one incoming water supply per household in the whole city (hot water has not been provided to Tbilisi citizens for almost 17 years). In addition, considering the high percentage of people in Tbilisi who are not able to pay for their water bills, it is unclear how much impact any metering programme will have on water wastage by citizens. Other options have not been adequately explored, for example a combination of educational campaigns and concerted efforts to repair faulty pipes.

### **Conclusions**

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<sup>2</sup> According to the UN "Substantive Issues Arising In The Implementation Of The International Covenant On Economic, Social And Cultural Rights, General Comment No 15 (2002): The right to water (arts. 11 and 12 of the International Covenant on Economic, Social and Cultural Rights) (paragraph 48): "The formulation and implementation of national water strategies and plans of action should respect, inter alia, the principles of non-discrimination and people's participation. The right of individuals and groups to participate in decision-making processes that may affect their exercise of the right to water must be an integral part of any policy, programme or strategy concerning water. Individuals and groups should be given full and equal access to information concerning water, water services and the environment, held by public authorities or third parties"

Due to the problems around the project, connected with lack of clarity regarding the ownership of Tbilisi Water Company, problems with access to information and public participation and non-existence of regulatory mechanisms, we consider that the project approved by the EBRD in July 2007, should be stopped.

If the EBRD decides to participate in future water projects in Tbilisi or the rest of Georgia, we would expect the following elements to be included:

- Public hearings and consultation on the different components of the project with different NGOs, vulnerable groups (internally displaced people, veterans, school teachers etc), political parties, trade unions etc.
- Undertaking of a social assessment to identify adequate mitigation measures for low-income households and a commitment from the government on the implementation of the mitigation measures
- The creation of an independent regulatory body that would be responsible for determining the drinking water price and performance criteria of water companies.
- The creation of a public supervisory mechanism able to participate in key decision-making processes including the project design, water tariff setting, investment obligations etc.

We look forward to learning about the EBRD's response to these important changes in circumstances.

Yours faithfully,

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CEE Bankwatch Network

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Lia Todua  
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