

TBILISI WATER SUPPLY IMPROVEMENT PROJECT

Background

The Tbilisi Water and Sanitation Utility (Tbiltskalkanali) owned by Tbilisi city council is experiencing a large financial deficit that has led to insufficient maintenance and operation of the existing systems and has not allowed the necessary asset rehabilitation and replacement.

Since 2004 subsidies to Tbiltskalkanali have increased for the rehabilitation and reform of the city water and sanitation system. This has in itself been controversial but is set to continue in the proposed EBRD "Tbilisi Water Supply Improvement Project" in 2007 that aims to improve the water supply through hydraulic modelling of the water and wastewater network; urgent repairs to the water network; introduction of metering for residential blocks and the water distribution network; installation of wastewater flow measurements; modernisation of the chemical laboratory, and cleaning and inspection of the sewer network. As an important transitional impact the project aims to "support to the City of Tbilisi to prepare a public-private partnership for the Tbilisi Water Company".

Problems

A number of problems have already raised significant concerns among Tbilisi citizens regarding the project activities, including:

Residential block metering

One of the goals of the project is to meter blocks of flats so that one water-meter will measure the amount of water used. As a result the fee for water has to be paid collectively by the residents of the block based on the number of family members.

The same practice of collective meters exists in rural areas and in some districts of Tbilisi city with regard to the collection of energy fees, and according to the Georgian Independent newspaper this is to be ceased by 1 July 2007. One of the main problems is the cutting off of users that pay honestly for the electricity used, so this system creates lots of tension between the community members. Citizens are protesting against applying this controversial practice to the water supply system and there have been a number of protests against the unilateral decision taken by Tbiltskalkanali.

Impact of water improvement project on socially vulnerable groups

According to the Ministry of Healthcare, Labour and Social Protection each family would be given around GEL 60 (USD 30) per year for communal services. Taking into account the fact that the water fee per person is GEL 2.40 per month, and that this is likely to increase in a few months, the problem remains serious.

However neither Tbilisi City Council nor the EBRD are addressing the issue adequately. While the monthly salary for a school teacher constitutes GEL 120, according to the studies "the maximum affordable level of combined water and waste services should not exceed 4% of average household income"¹, particularly in case of simultaneous price increases "in other household expenditure such as electricity and heating", which means that "even the 4% threshold may represent an unacceptable burden"² During the last year prices for electricity and gas have increased in Georgia by up to 50 percent. Taking into account that around 50 percent of the population lives under the poverty line, there

¹http://www2.mst.dk/common/Udgivramme/Frame.asp?pg=http://www2.mst.dk/udgiv/publications/2002/87-7972-228-8/html/default_eng.htm Chapter 5.3.1

²http://www2.mst.dk/common/Udgivramme/Frame.asp?pg=http://www2.mst.dk/udgiv/publications/2002/87-7972-228-8/html/default_eng.htm Chapter 5.3.1

is quite a large chance that a proportion of the population will be without drinking water – one of the most basic socio-economic rights of Georgian citizens.

One of the important concerns with regard to the public-private partnership (PPP) in the water sector relates to the problems of non-transparency of the PPP contract and its conditions, setting up the tariffs for the usage of water and so on. In Georgia the decision about the water tariff is taken by Tbilisi City Council based on the calculations provided by the company. The fact that there is no independent regulation unit that could calculate and set an optimal water tariff rate may lead to serious problems with regard to unreasonable tariff-setting, especially in the case of a PPP in which the company involved expects not only to cover its costs but also to make a profit.

Non-transparent decision to use a PPP mechanism rather than publicly-supervised public procurement

It is unacceptable that a PPP arrangement seems to have been chosen without any public discussion on the advantages and disadvantages of this approach.

Experience from around the world shows numerous problems with PPPs in the water supply sector, resulting in a number of contracts being terminated or re-negotiated, and the decision to use a PPP is not one that should be taken lightly. Noted problems include under-investment and failure to improve services (eg, Severn Trent Water International in Guyana, the City Water consortium in Dar es Salaam, Tanzania), overly generous contracts transferring too little risk to the private sector (eg, Szeged, Hungary), and difficulty in terminating contracts.

Even the IMF has admitted that “*Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed.*”³ Decisions on whether to use a PPP or public procurement for water supply in Tbilisi must be taken in full consultation with the affected people, including access to public sector comparator and value for money calculations.

Demands

To avoid drastic negative impacts from the project the EBRD should undertake the following measures:

- Make available all relevant documentation related to the Tbilisi Water Supply Improvement Project (Feasibility Study, audit of the company's accounts etc.)
- Undertake a social assessment to identify adequate mitigation measures for low-income households and obtain a commitment from the government on the implementation of the mitigation measures
- Organise 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.
- Create a public supervisory mechanism, that will be able to participate in key decision-making processes including the project design, water tariff setting, investment obligations, whether to use a PPP mechanism, and if so the development of PPP conditions etc.

For more information

David Chipashvili

Association Green Alternative

Visiting Address: 5a Kipshidze Str., IV entr., VII fl., 0162 Tbilisi, Georgia

Mailing Address: 62 Chavchavadze Ave., 0162 Tbilisi, Georgia

Tel: (+995 32) 22 16 04; Tel/Fax: (+995 32) 22 38 74; Mobile: (+995 55) 27 67 99

E-mail: datochipashvili@caucasus.net

³ International Monetary Fund Public-Private Partnerships March 12, 2004
<http://www.imf.org/external/np/fad/2004/pifp/eng/031204.htm>