

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board on 23 April 2020¹

GEORGIA

GrCF2 W1 – TBILISI METRO PROJECT

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CNG	Compressed Natural Gas
CO ₂	Carbon Dioxide
DSCR	Debt Service Coverage Ratio
EBRD	European Bank for Reconstruction and Development
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plans
ESDD	Environmental and Social Due Diligence
EUR	Euro
FAA	Funded Activity Agreement
GCF	Green Climate Fund
GrCF	EBRD Green Cities Framework
GrCF2	EBRD Green Cities Framework 2
GCAP	Green Cities Action Plan
GDP	Gross Domestic Product
GEL	Georgian Lari
GET	Green Economy Transition
GHG	Greenhouse Gas
IFI	International Financial Institution
IMF	International Monetary Fund
PIP	Priority Investment Plan
PIU	Project Implementation Unit
PP&R	Procurement Policies and Rules
PSC	Public Service Contract
SDG	Sustainable Development Goals
SPP	Stakeholder Participation Programme
SSF	EBRD Shareholder Special Fund
STC	Standard Terms and Conditions
TC	Technical Co-operation
TTC	Tbilisi Transport Company
VAT	Value Added Tax

CURRENCY CONVERSION (as of 2 March 2020)

USD 1 = GEL 2.79

EUR 1 = GEL 3.10

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Georgia (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower in the amount of up to EUR 75.0 million (structured in two tranches) where EUR 65 million will be provided for the Bank’s account and EUR 10 million will be funded by the Green Climate Fund (“GCF”). The loan will be on-lent to the City of Tbilisi (the “City”) for the benefit of the Tbilisi Transport Company (the “Company”).

The operation will improve the reliability, safety and efficiency of public transport in Tbilisi through the purchase of approximately 40 modern metro cars, rehabilitation of a metro depot and a tunnel (the “Project”). The Project is part of EBRD Green Cities Framework 2 (“GrCF2”), and is a follow-on investment under the Tbilisi Green City Action Plan, as it addresses a priority environmental challenge of the City. The Project’s expected transition impact follows that identified in the GrCF2, and is to derive from the Green and Well-Governed qualities by addressing the City’s priority needs and reducing the impacts of the City’s transport sector by encouraging a shift to public transport systems. [REDACTED]

Advance contracting procedure is being used in line with the Bank’s Procurement Policy and Rules for the metro cars supply contract, and therefore retroactive financing may be required in the amount of up to 20 per cent of the loan as defined by the Operations Policy for Retroactive Financing.

I am satisfied that the operation is consistent with the Bank’s Strategy for Georgia, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition approach, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Suma Chakrabarti

BOARD DECISION SHEET

GEORGIA – GrCF2 W1 – Tbilisi Metro Project - DTM 51392 Framework: REGIONAL – Green Cities 2 - DTM 50440	
Transaction / Board Decision	<p>Board approval² is sought for a sovereign loan of up to EUR 75 million, in two tranches, in favour of Georgia to finance the acquisition of 40 modern metro cars (Tranche 1), and the rehabilitation of a metro depot and a tunnel (Tranche 2). The amount of EUR 65 million will be provided for the Bank's account and the amount of EUR 10 million will be funded by the GCF. The proceeds of the sovereign loan are to be on-lent to the City of Tbilisi for the benefit of the Tbilisi Transport Company.</p> <p>Tranche 1 will be committed at signing. The commitment of Tranche 2 will be [REDACTED] delegated to Management. The proposed investment will address Tbilisi's priority needs as identified by the Green City Action Plan ("GCAP") approved by the City in September 2017. The Project is a follow-on investment, proposed under the Green Cities 2.</p>
Client	Georgia as the Borrower.
Main Elements of the Proposal	<p><u>Transition impact:</u></p> <ul style="list-style-type: none"> • <i>Green</i> – The Project will improve the reliability, safety and efficiency of public transport, encouraging a modal shift from private to public transport resulting in significant GHG and air pollution reductions. • <i>Well-governed</i> – The Project will support the development and implementation of the PSC for the metro operations. It will also support the implementation of the public transport reform and raise public awareness on transport related matters. <p><u>Additionality:</u></p> <ul style="list-style-type: none"> • The long-term financing necessary to structure the Project is not available in the country. [REDACTED] • The Bank's experience, innovation, knowledge and capabilities are material to the timely realisation of the Project's objectives. • The Bank will reach higher standards of gender equality through [REDACTED] promoting women employment opportunities in the urban transport sector. <p><u>Sound banking:</u> The transaction is a sovereign loan. The Bank's Standard Terms and Conditions apply. [REDACTED]</p>
Key Risks	<ul style="list-style-type: none"> • Georgia has a moderate creditworthiness risk with an affordable debt burden. The country's sovereign credit rating stands at BB stable from Fitch, BB stable from S&P and Ba2 stable from Moody's. • The City's budget has been growing in recent years. [REDACTED] • The City and the Company have successfully implemented a number of IFI-funded projects, including projects financed by the EBRD.
Strategic Fit Summary	The Project is consistent with the Bank's Municipal and Environmental Infrastructure Sector Strategy, the Country Strategy for Georgia, the Green Economy Transition Approach and the Strategy for the Promotion of Gender Equality.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>A sovereign loan of up to EUR 75 million to Georgia, represented by the Ministry of Finance, to be on-lent to Tbilisi City Municipality (the “City”), for the benefit of the Tbilisi Transport Company Ltd (the “Company” or “TTC”), a municipal company which operates buses, the metro system and cable cars in Tbilisi.</p> <p>The loan is structured in two tranches:</p> <ul style="list-style-type: none"> - Tranche 1 in the amount of up to EUR 60 million for the acquisition of ca. 40 modern metro cars (10 train sets) (to be committed at signing), and - Tranche 2 in the amount of up to EUR 15 million for the rehabilitation of a depot and a tunnel. <p>Of the total amount of the Tranche 1, EUR 10 million would be financed from the GCF.</p>
Existing Exposure	Total amount of sovereign exposure: EUR 303.3 million [REDACTED].
Maturity / Exit / Repayment	Fifteen-year maturity [REDACTED].
AMI eligible financing	Up to EUR 10 million loan from the GCF.
Use of Proceeds	<p>The proceeds of the Bank’s loan (including GCF amount) will be used to finance the acquisition of ca. 40 metro cars. The rehabilitation of a metro depot and a tunnel will be financed by the EBRD loan only.</p> <p>Procurement of the loan financed contracts will be carried out in accordance with the Bank’s Procurement Policies and Rules (“PP&R”). [REDACTED] The procurement and related implementation is supported by international consultants ensuring technical compliance and timely delivery.</p> <p>The tender for metro cars’ supply contract was launched on 2 March 2020 following the open tendering procedures in line with PP&R section III, and, subject to the timing of the loan agreement signing, the retroactive financing may thus be required in the amount of up to 20 per cent of the loan amount as defined by the Operations Policy for Retroactive Financing.</p> <p>Please refer to Annex 1 for project implementation details including a procurement plan.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Borrower: Georgia represented by the Ministry of Finance. • Beneficiary: the Company, party to a Project Implementation Agreement. • Tbilisi City: party to a Project Support Agreement.
Conditions to effectiveness	<ul style="list-style-type: none"> • Ratification [REDACTED]
Conditions precedent to Tranche 2 commitment	<ul style="list-style-type: none"> • [REDACTED] Formal request from the Borrower to commit Tranche 2.
Key Covenants	<p>Key covenants for the City will include:</p> <ul style="list-style-type: none"> • [REDACTED] Sign the PSC for the metro operations. <p>Key covenants for the Company will include:</p> <ul style="list-style-type: none"> • Sign the PSC for the metro operations. [REDACTED]
Security / Guarantees	Sovereign loan.

Other material agreements	<ul style="list-style-type: none"> • Loan Agreement between the Bank and the Borrower. • Project Implementation Agreement between the Bank and the Company. • Project Support Agreement between the Bank and the City. • Subsidiary Loan Agreement between the Borrower, the City and the Company.
Associated Donor Funded TC and co-investment grants/concessional finance	<p>A. Technical Cooperation (TC) [REDACTED]</p> <p><u>Pre-Signing</u></p> <ul style="list-style-type: none"> • TC 1: Economic Due Diligence of the Project. • TC 2: Environmental and Social Due Diligence [REDACTED]. <p><u>Post-Signing</u></p> <ul style="list-style-type: none"> • TC 3: Capacity Building and Stakeholder Participation Programmes [REDACTED]. • TC 4: Rolling stock commissioning [REDACTED]. • TC 5: Detailed Design and Project Implementation Support for Tranche 2. • TC 6: Technical Support for Safe and Inclusive Transport Services [REDACTED]. <p>B. Co-investment grants / Concessional Finance (Non-TC)</p> <p>A concessional loan of up to EUR 10 million is expected to be provided by the GCF, to co-finance the acquisition of modern metro cars. Please refer to Section 6.3 for further details.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

COVID-19 impact on the Georgian economy is expected to be significant. Uncertainty and tightening of global financial markets, reduced foreign demand for exports of goods and services leading to lower FX receipts and pressure on domestic FX market has already led to strong currency depreciation in March 2020. Domestic demand is dropping on the back of public health measures put in place to contain the virus spread. With tourism receipts amounting to nearly one fifth of overall GDP, the negative impact of containment measures will be widespread across many sector. Expected drop in remittances will likely further suppress the household disposable income.

To help stabilize external imbalances and provide an additional liquidity buffer, the Government has initiated discussions with the IMF about augmenting the current EFF programme. Discussions with the IMF staff have been initiated and ongoing. Other international partners have stated their readiness to support the economy as well. Further, the Government announced a package of measures to support the economy in the estimated amount of GEL 1 billion (EUR 323 million equivalent). It includes postponement of certain tax payments for companies in the tourism sector, support towards loan restructuring for businesses, possibility of deferring loan repayments for individuals, doubling of the VAT refunds to GEL 1.2 billion (EUR 387 million equivalent) by the end of the year and co-financing interest payments on loan borrowings by certain types of hotels. The Government also pledged to increase capital investments by GEL 300 million (EUR 97 million equivalent) to further support the economy.

Acceleration of infrastructure projects is also crucial for overall economy of Georgia, to ensure job creation and boost local economy, due to the COVID impact on the key sectors, such as tourism, hospitality, trade, manufacturing, etc. Therefore, the Government started working closely with International Financial Institutions and donors on the solidarity / support package. In general, the transport sector has been impacted as the COVID-19 pandemic has disrupted supply-chains throughout the world, and as all public transport operations have been stopped or significantly suspended during the quarantine period. However, the Government is committed to continue investments in the infrastructure sector and to pursue priorities identified prior to the crisis, with Tbilisi Metro Project being confirmed as one of such priorities. Project preparation is advanced, with the tender for metro cars' supply contract launched on 2 March 2020. At this stage, the crisis is not expected to delay the project implementation, which will result in long-term benefits for the City and the population. The Project implementation will take four years to complete. The procurement process is being done through the ECEPP (EBRD Client e-Procurement Portal) thus all procurement processes up to contract signing will be fully electronic, minimizing any physical contact with the participants. Tender is following a two-stage approach, it is expected to take about six months to complete to contract signing (nor requiring any travel), thus no delays are expected in the near future.

The proposed investment will address Tbilisi's priority needs as identified by the GCAP approved by the City in September 2017. The Project is a follow-on investment, proposed under the Green Cities 2 ("GrCF2"). The City is actively working on the implementation of more than 10 GCAP measures. The Project's objective is to improve the reliability, safety and efficiency of public transport, encouraging a modal shift from private to public transport, making the Project compatible with the Green Economy Transition approach ("GET") and consistent with the ambitions of the GrCF2.

The Project will promote sustainable transport in Tbilisi. The improved access, quality and efficiency to the City's metro system will result in significant greenhouse gas and air pollution reductions as local residents switch from private fossil fuel to public, electric transport. Due to these climate mitigation benefits, the Project is eligible to receive the co-financing from the GCF.

The Project is part of a broader programme aiming to assist the City in reforming its management of public transport by financing the renewal of the bus and metro systems and network restructuring. Tbilisi is committed to a paradigm shift in the public transport and has a strong reform agenda, including development of a Sustainable Urban Mobility Plan, restructuring of public transport routes, corporate development of the Company and increasing public awareness through a stakeholder engagement programme. The reform also aims to promote women's access to safe and accessible transports and promote women's employment opportunities in the urban transport sector as well as to improve the Company's environmental and social performance through the introduction of gender considerations, and raise occupational health and safety management standards at the Company.

The City has already replaced part of its fleet of outdated diesel buses with 144 modern 12-metre Compressed Natural Gas ("CNG") buses as part of the Tbilisi Bus project (OPID 47166) and will further acquire ca. 200 modern 12-meter CNG buses under Tbilisi Bus Extension (OPID 51207). In addition to bus fleet replacement, the City also opened an additional metro station on an existing line with financial support from the Asian Development Bank and is further planning to invest in an extension of the metro line in the coming years, expected to be co-financed by EBRD and EIB. Compared to private vehicle travel, the electric powered metro will reduce transport-related Greenhouse Gas ("GHG") and air pollution emissions in Tbilisi, particularly due to the fact that electricity in Georgia is mostly produced from renewable sources.

The Project is consistent with the Municipal and Environmental Infrastructure Sector Strategy, which states that one of the key strategic directions is *"driving the environmental, economic, and social sustainability of the sector through capacity building and improved corporate governance"*... *"This will be targeted by the Bank through support for (i) GCAP planning, (ii) procurement and implementation, (iii) client capacity building, fostering of improved social and environmental practices, corporatisation, decentralisation, integrated stakeholder engagement, introduction of contractual clarity in the PSC (improving government effectiveness and accountability)."* The Bank's Country Strategy for Georgia notes that *"the Bank will engage in promoting energy efficiency and sustainability in the municipal sector."* The Project is also in line with the Bank's Strategy for the Promotion of Gender Equality as the Company will reach higher standards of gender equality across its metro operations. In wider terms, the Project is aligned with the requirements of the Covenant of Mayors, which Tbilisi joined in 2010, given the anticipated environmental gains from this investment, and the EU Association Agreement signed by Georgia in 2014. Moreover, the Project will contribute to SDG 5: Gender Equality, SDG 8: Decent Work and

Economic Growth, SDG 9: Industry, Innovation and Infrastructure, and SDG 11: Sustainable Cities and Communities.

1.2 TRANSITION IMPACT

The GrCF2 is a strategic and multi-project approach targeting environmental issues in selected large cities in the EBRD's countries of operation. The primary goal is to achieve significant environmental improvements and promote the green transition quality within the relevant city. The GrCF2 also aims to build necessary capacity and facilitate better coordination and buy-in among various stakeholders within the relevant cities in order to improve the governance, operational efficiency and financial sustainability of the targeted investments and initiatives. These objectives are supported by the development and implementation of a city-specific GCAP identifying and prioritising environmental challenges and ways to address them through targeted investments, services and policy instruments.

The Project will help to promote the **Green** transition quality by addressing Tbilisi's priority needs as identified by the GCAP. Namely, the GCAP identified air pollution, the age and associated impacts of private vehicles and promotion of public transport as priority environmental challenges for the City to address. By encouraging a shift to public transport through improved access and efficiency of the metro system, the Project will address multiple GCAP priorities. The Project will impact transport operations and also reduce Carbon Dioxide ("CO₂") [REDACTED] and toxic air emissions, particulate matter ("PM") and NO_x [REDACTED]. Tbilisi is actively working on implementation of the GCAP with EBRD support, as well as using its own funds. [REDACTED]

The Project will support the **Well-Governed** transition objective through the signing of a PSC dedicated to the metro operations and the SPP. The policy dialogue will also include technical assistance for the implementation of the transport reform started as part of the Tbilisi Bus (OPID 47166) and Tbilisi Bus extension projects (OPID 51207).

Delivery risks: The main risks to transition impact [REDACTED] are mitigated by the following factors: (a) the GrCF is now fully operational with lessons learnt on engagement with Cities, including getting their 'buy-in' [REDACTED]; and the EBRD continues to engage in policy dialogue with governments and to sponsor green cities events to facilitate knowledge sharing.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction with the same client/group either with the same use of proceeds or in the same country (repeat transaction).	This is the first Project with Tbilisi for financing new metro cars. However, EBRD financed renewal of bus fleet (OpID 47166 signed in May 2016, and OPID 51207 signed in November 2019). These projects are follow-on investments under the GCAP and form part of a broader programme aiming to assist the City in reforming its public transport management.

Additionality sources	Evidence of additionality sources
Financing structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions [REDACTED]. Such financing is necessary to structure the Project.	There is very limited market for long-term municipal borrowing for local authorities in Georgia. [REDACTED]
Financing structure - Public sector: EBRD investment is needed to close the funding gap . At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	
Risk mitigation - EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.	The Project will result in considerable reductions in CO2 emissions, as well as PM and NOx. [REDACTED]
Standard-setting: helping Projects and clients achieve higher standards - Client seeks EBRD expertise on corporate governance improvements , including for climate risk management.	[REDACTED]The Company will reach higher standards of gender equality through EBRD's strategic programme on Gender Equality with TTC and the City to promote gender-smart transport solutions and leverage the results of the EBRD's first Tbilisi bus gender programme. The Project builds on the municipal policy programme and will [REDACTED] develop a training aimed at promoting women's employment opportunities in the urban transport sector with a focus on women as metro drivers.
Standard-setting: helping Projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on higher environmental standards , above 'business as usual'.	
Standard-setting: helping Projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on higher inclusion and gender standards and/or equal opportunities action plans .	
Standard-setting: helping Projects and clients achieve higher standards - Client seeks/makes use of EBRD expertise on best international procurement standards .	
Knowledge, innovation and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of	The EBRD has extensive urban transport sector knowledge and long-standing relationship (including policy dialogue) and GCAP implementation with the counterparts

the Project's objectives, including support to strengthen the capacity of the client.	which will contribute to successful implementation of the Project.
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1.4 SOUND BANKING - KEY RISKS

Risks	Probability Effect	Comments
Georgia's Creditworthiness as Borrower	Medium/Medium	Georgia's total government debt stood at 38.9 per cent of GDP in 2018. [REDACTED]
Exchange Rate Risk Revenues in GEL while the EBRD loan will be in EUR.	Medium/High	[REDACTED]. [REDACTED] The National Bank of Georgia has been steadily building foreign currency reserves. In addition, an International Monetary Fund ("IMF") programme provides additional shock absorption capacity against exogenous economic risks.
Financial Performance of the City	Low/High	The City's budget has been growing in recent years. [REDACTED]
Implementation Risk	Low/High	The City and the Company have successfully implemented a number of IFI-funded projects, including with the EBRD. [REDACTED]

2. MEASURING / MONITORING SUCCESS

<i>Overall objectives of project</i>	<i>Monitoring benchmarks</i>	<i>Implementation timing</i>
<ul style="list-style-type: none"> - Good financial and operational performance - On-time project implementation 	<ul style="list-style-type: none"> - Growth in revenues, profitability and cash flows - Completion according to the timeline and within the budget 	[REDACTED]

Obj. No.	Framework Objective	Transition Indicators	Contribution of Operation to Framework Objectives	Baselines	Target Values	Implementation Timelines
Primary TI Quality: Green						
1.1	Multiple green investments: Each participating city makes on average at least 3 investments that address priority environmental challenges identified by the GCAP, where all EBRD financed projects reduce emissions or improve resource efficiency by minimum 20 per cent or promote climate change resilience.	Implementing an eligible Green Cities project	Yes. The signed Green Cities Project results in [REDACTED] savings on GHG emissions	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Environmental impact: To achieve significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for critical environmental challenges as specified in the GCAPs, for more than 50 per cent of the Green Cities.	Achieving significant environmental impact in a priority environmental challenge identified in the GCAP	Yes. The Project will reduce GHG emissions [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Effective GCAP implementation: To achieve the overall objective, the Framework will also have an implementation objective of achieving at least 50 per cent of all verifiable targets, set in all GCAPs, within 5 years after the respective GCAP finalisation (including both investments and well defined policy measures).	Implementing a project identified as a target for the GCAP	Yes. The Project addresses the GCAP target of reducing local GHG and air pollution emissions, and investing in transport measures.	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Strong follow-on support: At least 50 per cent of transactions and investment volume under GrCF2 being follow-on investments addressing critical environmental challenges identified in the GCAPs.	Implementing a follow-on project	Yes. The Project is a follow-on investment from the GCAP that addresses the priority challenge of bus fleet renewal.	[REDACTED]	[REDACTED]	[REDACTED]
Secondary TI Quality: Well-governed						
2.1	New GCAPs: 10 additional GCAPs finalised and approved where all GCAPs include priority actions and a monitoring strategy.	GCAP developed and submitted for approval	Tbilisi's GCAP sent to the City's management including an implementation and monitoring strategy, and approved in September 2017.	[REDACTED]	[REDACTED]	[REDACTED]
2.2	PSCs and tariff increases: PSCs and effective tariff increases in line with the respective PSCs, aimed at cost-recovery or improved fare-box ratio, for the majority of all sub-	PSC signed and implemented	Yes. A PSC covering metro operations effectively implemented.	[REDACTED]	[REDACTED]	[REDACTED]

	projects benefitting revenue-generating operators.	Tariffs reached the target level	No. Cost recovery level to be reached as part of the PSC implementation.	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Access to financial markets: Develop green finance roadmaps in 4 cities to address the key elements required to access green finance markets, including green bonds.	A green finance roadmap finalised	n/a	[REDACTED]	[REDACTED]	[REDACTED]
Project Specific Indicators						
3.1	Total Population benefitting from improved public transport services	Total Population benefitting from improved public transport services	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3.2	Annual reduction in tonnes of CO ₂ equivalent savings (tonnes CO ₂ eq / yr)	CO ₂ emissions reduced	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3.3	PSC signed and implemented		PSC covering metro operations to be signed and implemented	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER / CLIENT

The Borrower is Georgia, represented by the Ministry of Finance. Georgia has a moderate creditworthiness risk with an affordable debt burden. In October 2019, Standard & Poor's upgraded Georgia's long-term foreign and local currency sovereign credit ratings of the Government of Georgia from 'BB-' to 'BB' with a stable outlook. In October, Moody's issued annual credit analysis confirming Government of Georgia's rating at Ba2 with stable outlook. Fitch Ratings upgraded Georgia's Long-Term Foreign- and Local-Currency Issuer Default Ratings from 'BB-' to 'BB', outlook Stable in August 2019, and confirmed the rating in February 2020. Favourable institutional arrangements and business environment indicators compared to peers, a track record of macroeconomic resilience against regional shocks, robust growth rates and a moderate debt burden are considered as credit strengths by the rating agencies. Confidence in the authorities' economic strategy is also anchored by the IMF Extended Fund Facility programme.

3.2 THE CITY AND THE COMPANY

The proposed sovereign loan will be on-lent to the City for the benefit of the Company. The Company will sign a Project Implementation Agreement, and the City will sign a Project Support Agreement with the Bank. These agreements will include covenants for the Company and the City, such as financial ratios and signing of the PSC. [REDACTED]

The City's current revenue consists of taxes, state transfers (central government) and non-tax (own) revenues from rent, privatisation, licenses, etc. [REDACTED] Please refer to Annex 2 for detailed financial analysis of the Company for 2016-2018.

4. MARKET CONTEXT

Tbilisi has a population of 1.2 million, which equals to one third of the total population of Georgia. The City produces more than 50 per cent of the country's GDP. It is the economic,

cultural and political centre of Georgia. The City's metro and bus network is operated by the Company, which is wholly owned by the City. The Company (formerly Tbilisi Metro Ltd.) was founded in 1966 when the first line of Tbilisi metro was opened. In 2009 municipal buses and all related property were transferred to the Company, and subsequently the newly constructed Rike-Narikala cable way.

The organisation of public transport, including traffic management and supervision of public transport including minibuses, is the responsibility of the City's transport department. The relations between the Company and the City are governed by the local legislation as well as the Company's charter. The metro and bus fares are approved and regulated by the City Council, while minibus fares are set by the private operators with advance notification to the City.

The metro system is the backbone of the urban transport system of Tbilisi. [REDACTED]

The current metro and bus fare is GEL 0.5 (EUR 0.2), while minibuses charge GEL 0.8 (EUR 0.3) per trip. The City has established an electronic ticket system for transport services through a service contract with two separate systems, one for transport routes operated by the Company and the other for those operated by the private operators. Consultants working on restructuring of the bus network under the Tbilisi Bus Project are assisting the City with the integration of these two systems.

[REDACTED] With the proposed investment, the attractiveness of metro as means of transport will be enhanced, which in turn will encourage passengers to continue to use public transport, preventing a shift to minibuses and cars, and the safety of the metro operations will improve. In addition, urban transport has been identified by all IFIs as a priority sector for enhancing gender equality in Georgia, and there is currently a lack of formal sex-disaggregated data for tracking usage and accessibility.

Georgia in general is showing strong support for the green agenda in cities. Tbilisi was one of the first three cities to join EBRD Green Cities and one of the first to complete a GCAP. Batumi has also joined this programme, with more cities expected to follow, which might include Kutaisi. Please refer to Annex 3 for an overview of the Green Cities Programme.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 ECONOMIC ANALYSIS (EIRR)

[REDACTED]

5.3 SENSITIVITY ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

The Project is categorised B under the 2014 Environmental and Social Policy. An independent Environmental and Social Due Diligence (“ESDD”) included an Environmental and Social analysis of the proposed investment under Tranche 1 as well as a review of the existing corporate environmental, social, health and safety management systems and the capacity of the Company to manage risks associated with the proposed Project in line with the EBRD Performance Requirements (“PRs”). Tranche 2 of the Project, which covers the construction of the new metro depot and rehabilitation of the metro tunnel will be subject of a separate ESDD and Management Approval.

The Company is well-known to the Bank through a number of other projects and the EBRD is supporting several environmental and social (“E&S”) related TCs for the Company. Regular progress and monitoring reports confirm that the Company has achieved substantial progress in implementing previously agreed Environmental and Social Action Plan (“ESAP”) and general E&S Management Systems and has capacity to deliver the Project in line with EBRD PRs.

The Project will bring substantial environmental and public health benefits through modernisation of the metro car fleet. It will increase accessibility and mobility for all user groups and improve overall quality, safety and efficiency of urban transportation. [REDACTED]

The Project will not have significant adverse social impacts to local communities or other project affected parties, nor will the Project require the acquisition of any land or result in involuntary resettlement or economic displacement.

Any adverse impacts will be site specific and addressed by the ESAP that has been developed for the Project, which includes, inter alia, further improvement of Environmental & Safety Management Systems, including improvement of sanitary and hygienic conditions for the Company employees, effective waste management and waste water treatment facilities. The Company will be required to include requirements to energy efficient equipment (e.g., regenerative braking system for the rolling stock and others) into the tender documentation. The ESAP was presented to the Company and will be agreed prior to the Board meeting.

The environmental and social performance of the Project and implementation of the ESAP will be monitored through annual E&S reports and site visits when deemed necessary.

6.2 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was undertaken on Tbilisi City Administration, the Company, its shareholders, senior management and other relevant parties. The review did not identify any material integrity issues. [REDACTED].

6.3 CONCESSIONAL FINANCE

The Project will promote sustainable transport in Tbilisi by encouraging a modal shift to public transport. The improved access, quality and efficiency of the City's metro system will result in significant greenhouse gas and air pollution reductions as local residents switch from private fossil fuel to public, electric transport. [REDACTED] Due to [REDACTED] climate mitigation benefits, the Project is eligible to receive the co-financing from the GCF.

ANNEXES TO OPERATION REPORT

ANNEX 1	Project Implementation
ANNEX 2	Company Financial Performance
ANNEX 3	Update on GrCF / GrCF2 performance

ANNEX 1: PROJECT IMPLEMENTATION

Procurement classification – *Public [sovereign]*

[REDACTED] EBRD Country Procurement Risk Index 2016³ allocates Georgia a ‘low’ level of risk to be applied to all public sector projects. The index is based on the level of compliance with the EBRD Core Public Procurement Principles as assessed in the EBRD Public Procurement Assessment and adjusted to take into account the scores from the Transparency International Corruption Perceptions Index. Involvement of an independent consultant providing inter alia procurement support to the PIU will ensure compliance with the Bank’s PP&R and will contribute to minimising the associated risks.

[REDACTED] The Company was supported in the preparation of technical specifications for the metro cars by an international consulting company financed by the City. In addition, the Bank’s framework consultant is assisting the Company in the preparation of tender documents for the procurement of rolling stock. [REDACTED]

During the contract implementation the Company will be supported by an additional (TC) consultant for testing and commissioning of goods. During the rehabilitation works, the PIU will be supported by an international supervision consultant, as well as a PIU support consultant with a comprehensive terms of reference.

Project implementation arrangements:

The Project will be split in two tranches. **Tranche 1 – committed**, composed of rolling stock contract; **Tranche 2 – uncommitted**, for rehabilitation of metro depot and a tunnel and the relevant supervision contract. [REDACTED] The planned contracts financed from the proceeds of the EBRD loan will be procured through open tendering and competitive selection in accordance with the latest edition of PP&R for public sector operations. All tendering will be done through EBRD Client e-Procurement Portal.

Due to the tight timeline requested by the City and the Company, the tender for metro cars’ supply contracts was launched on 2 March 2020, thus retroactive financing may be required in the amount of up to 20 per cent of the loan as defined by the Operations Policy for Retroactive Financing.

All contracts will be subject to prior review by the Bank in accordance with the procedures set out in the PP&R. Disbursement under the contracts will be made directly to the contractors, suppliers and consultants. [REDACTED]

³ EBRD Country Procurement Risk Index 2016, Edition V.5 January 2017 – <https://intranet.ebrd.com/Procurement-Policy-and-Advisory/countryriskassessmentprocurement.pdf>

ANNEX 2: COMPANY FINANCIAL PERFORMANCE

The proposed sovereign loan to Georgia will be on-lent to the City for the benefit of the Company, which is wholly owned by the City. [REDACTED]

The Company's main sources of revenue is the revenue from passenger transportation by the three main categories of transportation: buses, metro and cableway. [REDACTED]

ANNEX 3: UPDATE ON GrCF / GrCF2

The Green Cities Framework (GrCF), approved by the Board in November 2016, set an ambitious agenda for the Bank's municipal business, with the over-arching aim being 'to serve as a sector-wide catalyst for addressing environmental challenges at the City level'. After only 2 years of operation, the Framework proved its ability to act as such a catalyst with the utilisation of the entire EUR 250 million headroom.

As a consequence, in October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2), with a headroom of EUR 1.1 billion, with EUR 700 million from the Bank's own capital and the remainder from the GCF and other donors. Given the sizeable amount from the GCF, in the form of concessional loans and grants for both capex and TC and the requirement to confirm to GCF the availability of Bank co-financing, GrCF2 is divided into two windows; Window I for GCF co-financing and Window II for non GCF co-financing. Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 1.5 billion in EBRD and donor funding.

Tbilisi was one of the first three cities to pioneer GCAP development, and approved it in September 2017. [REDACTED]