

Comments and recommendations on draft Georgia Country Strategy 2021-2026

Green Alternative has the pleasure to provide an opinion regarding the EBRD draft Country Strategy for Georgia 2021-2026, which defines the Bank's main investment priorities. Georgia commits to EU's green deal and starts developing the roadmap together with European Commission. Therefore, it's important that Bank's plan fully fit the Green Deal priorities and reflecting.

The Energy Sector

We would like to underline that the draft report adequately describes the key transition challenges of Georgia in the energy sector, including long-standing, problematic issues that have been prompting the mass public protests.

The Parliament approved the law on energy efficiency (EE) of Georgia in 2019. However, the supporting schemes for EE development are still missing. Therefore, it is highly appreciated that the EBRD draft country strategy considers energy efficiency measures implementation as the key priority. According to the joint diagnostic report of the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB),¹ energy intensity in Georgia is 46% higher than the EU average, meaning that the country spends 46% more energy to produce GDP. Georgia locked its resources in low-productivity activities, while exports dominate by low complexity products and services.

That's first time when EBRD recognized the complexity of Georgia's energy sector and did not focus just on the power sector. The recently published EIB and EBRD joint Georgia's diagnostic report address the deficiencies of Georgia's power sector, underlining that "The dominance of hydropower sources leads to seasonal patterns in power generation and the need for supplementary thermal generation and imports" while "Other renewable sources" of energy are nearly non-existent in the energy mix. The diagnostic report considers the gas sector to be in a preferential state and heavily subsidized (prices), distorting the market for other sources of electricity. According to the diagnostic report, "Since a significant share of electricity is consumed at a regulated low price thanks to the discounted price of gas, increased demand for gas is supported in the residential and thermal power plant sectors. The effect of subsidies goes beyond the gas market — by decreasing the marginal cost of gas technologies, the entire power market is distorted". Furthermore, due to the "a generous support mechanism provided by the government for the development, construction and operation of new thermal power plants" puts these plants are appearing comfortable financial position compared to other generation sources.

The EBRD draft strategy also recognizes the potential impact of climate change on hydro resources and increasing GHG emissions of the energy sector due to fuel combustion activities.

Unfortunately, the draft strategy does not mention guaranteed power purchase agreements (PPP) in mainly in Hydro sector, especially in the hydropower sector, representing the challenge for the sector development. PPPs guarantees holders generous support by fixed tariffs, granted assets, etc. In total, there are more than 187 PPP contracts on the HPPs. Nor it mention what lessons were learned by the Bank while funding number of controversial HPPs with drastic impacts, such as 187 MW Shuakhevi, 109

¹ https://www.eib.org/attachments/publications/georgia_country_diagnostic_en.pdf

MW Dariali, 270 MW Nenskra HPPs. Both the EU energy community and the IMF find PPP contracts in the energy sector troubling for high fiscal costs and the possibility of distorting the electricity market that will be officially launched from January 1, 2022.

Key priorities for energy sector development 2021-2026

Under priority 3, "**Accelerate Green Transition through increased investments and better governance**" EBRD defines three key objectives and respective activities:

- Increased renewable energy generation;
- Increased energy and resource efficiency; Reduction of GHG emissions;
- Strengthened governance practices supporting green transition.

We welcome selected priorities. However, we firmly believe that priorities and activities should be more clearly spelled out in line with the findings of the joint diagnostic report. The Energy Efficiency, rehabilitation and retrofitting of existing energy infrastructure, diversification and decentralization of renewable energy generation should be priorities.

Energy efficiency (EE)

Georgia has vast energy efficiency (EE) potential in the public and household sectors and industry. EE represents a cross-cutting issue as it increases the country's energy security and leads to technological upgrade of the economy. Therefore, EBRD funding for Georgia has to be guided by the principle of "efficiency first". It should be focused on the establishment of the energy efficiency measures (industrial, household, buildings, etc.) to private and public entities as well as municipal infrastructure and households with the aim to reduce Primary Energy Consumption and emissions and ensure low energy intensity of GDP, instead of to just "energy saving" highlighting in the draft strategy.

In line with IEA Georgia's 2020 report, EBRD can play a crucial role in supporting the government to establish an independent body to improve energy efficiency across all sectors of the economy and ensure Human Resources development in the area.

Rehabilitation and retrofitting existing energy infrastructure

While much attention in recent years, has been given by EBRD to new hydropower development, there is also an increasing need to modernize and optimize the existing assets to ensure hydropower's vital role in energy systems is sustained and enhanced. 74% of total electricity generation in Georgia comes from Hydropower plants mainly constructed during the Soviet Union. Most of these plants need urgent technical rehabilitation to increase efficiency and generation.

Recent rehabilitation of the Enguri HPP with support of EBRD and EIB showed what benefits can be brought by rehabilitation works: Enguri HPP managed to produce more than 1 bln kw.h In January-August (2021) period compared to 2020 and increased its reliability for the energy system.

EBRD should support the development of the enabling policies to encourage reinvestment by the private sector to increase safety and security of the existing hydropower, coupled with capacity and technological upgrade (like replacing turbine runners, optimizing system, raising turbine peak efficiency, spillway designs, digitalization, etc.).

In addition, EBRD should also consider retrofitting existing HPPs by supporting floating solar plants on the surface of existing reservoirs that will increase the efficiency of both plants (Solar and Hydro hybrid system) and reduce water evaporation.

Diversification and decentralization of renewable energy generation

We fully support the expansion and diversification of the energy mix by developing renewable energy sources and related networks. However, we strongly believe that activities are needed to be specified in strategy more explicitly.

Due to the seasonal patterns of Hydro generation together with drastic negative environmental, social, and economic impacts, EBRD must stop the promotion of hydropower plants in Georgia. It should promote decentralized new renewables and other green technologies, diversifying the energy mix and addressing the needs for clean energy. Fuelwood accounted for 6% -10% of the total primary energy supply and provided one-fifth of all domestic energy production, making it the second-largest indigenous energy source after hydropower. Of Georgia's 1.2 million households, almost half (around 500 000) use biomass as a fuel. It is consumed primarily as fuelwood for heating, and to a lesser extent, for cooking. Approximately 80% of the consumption is in the rural areas, home to just over 40% of Georgia's population. Therefore, household air pollution represents one of the major challenges for Georgia and needs to be addressed through the development of sustainable energy mix accessibility.

In the power sector, the balancing of the overdependence from Hydro sector (80%) is needed. Georgia's vast potential for sun and wind should be exploited while ensuring the protection of country's biodiversity. According to the Electricity System Commercial Operator of Georgia (ESCO) the only windfarm Kartli as a rule, produce more electricity than newly built HPPs in Georgia during the wintertime, when the deficit of electricity is most visible.

In conjunction with new renewables, it is notable that prices for the Li-ion batteries have dropped significantly while technology keeps improving. According to IRENA², Electricity storage will play a crucial role in enabling the next phase of the energy transition. Along with boosting solar and wind power generation, it will allow sharp decarbonization in key segments of the energy market". Stationary electricity storage can provide a range of key energy services affordably. As the cost of emerging technologies falls further, storage is becoming increasingly competitive, and the content of economic services it can provide will only increase. A few initiatives are ongoing in Georgia, and it should receive support through policy measures and different financial mechanisms.

Transparency within the Energy sector

Georgia currently develops the National Climate and Energy Plan (NECP), as required by the European Energy Community, with the secretariat's support. One of the major issues both with NECP and former decisions of the government, including ones supported by EBRD, is the lack of data from one side, that coupled with non-transparency of other agreements existing in the energy sector, is still high. The Bank should strive for contract transparency within the energy sector due to its potential to impact the sector's macroeconomic parameters.

Support to Green transition

We welcome that EBRD continues to support municipal infrastructure development, including transport, water, waste, etc. However, the lessons learned from Georgia's need to be carefully studied and addressed, including the overall implementation of the Tbilisi Green City Action Plan. While EBRD plays a significant role in introducing low emission transport in Tbilisi and waste management, the plan implementation should be assessed to see the integrity of actions by EBRD and City Hall and find out problems.

²https://www.irena.org//media/Files/IRENA/Agency/Publication/2017/Oct/IRENA_Electricity_Storage_Costs_2017_Summary.pdf?la=en&hash=2FDC44939920F8D2BA29CB762C607BC9E882D4E9

One of the major problems is the lack of participation, which may lead to situations that outstanding sustainable initiatives do not receive support from the population and different political parties, which may create a ground for instability. An excellent example is Tbilisi public transport development, where the lack of broad public consultations and some negative social impacts leads to numerous problems and dissatisfaction from citizens and the media side, that's very unfortunate.

There is almost not existing CSO and independent experts' participation in municipal projects development, especially those that do not require any environmental impact assessment. The Green Action plan was developed without any public involvement, but with Covid-19 situation became even more problematic.

Transparency of the information concerning GCAP is another troubling issue. E.g., significant effort needed to get environmental and social analysis of the Tbilisi Metro Project.

Gender impact assessments and action plans are not conducted in a participatory manner in Green City projects. E.g., the same Tbilisi Metro project gender impact assessment and action plan were half pages within the environmental statement. While we encourage EBRD to continue creating job opportunities for women in the Tbilisi transport sector, the issue of gender-based violence and harassment should not be neglected. Meanwhile, at least 45% of women experienced sexual violence and harassment in metro, according to ADB 2014 study. According to the [Ministry of Interior Affairs](#), 43 sexual harassment cases were reported between 10.5.2019 (when sexual harassment law entered into force) till 30.9.2020. Most of them take place in public transport.

Therefore, the public transport systems should introduce the proper system (from policies towards physical designs and public awareness) to prevent gender violence.

The Gender assessment and action plans should be developed to reduce the potential gender impacts of the plans and projects, to ensure meaningful gender safeguards and measures to deal with gender-based violence and harassment.

Therefore, EBRD has potential to support ongoing Georgia's 2030 strategy development. As a result, strategy should be geared towards Georgia's transition to climate neutral, resource efficient clean and circular economy in line with 2030 targets of the European Green Deal.