

Do Tbilisi Bypass Railway is beneficial for Georgia?

Case Study

Background of the project

The main goal of this project, rated category A by the EBRD and EIB, was to construct a new section of railway that bypasses the central part of Tbilisi in order to avoid the transit of hazardous freight (such as oil and oil products) through the middle of the city. The total project cost was over EUR 350 million, of which EUR 200 million should be covered by the EBRD and the EIB (EUR 100 million each) and rest by Georgian Railway LTD, 100% stated owned company. The project implementation starts in 2009, through support of the EU Neighbourhood Investment Facility.

The railway was considered to act as a major barrier to city development on the northern bank as well as depressing land values in its vicinity. The bypass would not have any positive economic impact for Railway Company, neither increase efficiency of its operations.

Environmental and Social concerns

The railway project aimed to increase the efficiency and safety of railway operation in Capital of Georgia. However, the project aims were undermined by project design through relocation of railway in another densely populated district, thus posing a threat to the local population because of transit of hazardous freights (oil, oil products), without any safeguard measures in case of accidents involving trains running on the 18-20 metre high embankments. In addition, the Environmental and Social Impact (ESIA) study does not assess the leakage of hazardous goods such as oil carried by the trains, or brake fluid on neighbouring houses (some houses are 30 meters from the newly lined railway).

The high level concern was brought by potential pollution of drinking water. The railway route runs near the Tbilisi reservoir (at a minimum of 900 metres distance), one of the major drinking water supply sources for Tbilisi. Due to the underground streams that run towards the reservoir, in the event of the spillage of even half a tank of oil, approximately 50 percent of the volume of the Tbilisi reservoir could be contaminated, leaving 25 percent of Tbilisi's residents without drinking water and around 20,000 hectares of agricultural arable land without irrigation. According to an ecological analysis by the Georgian Water and Power Company (GWP)¹, these potential negative impacts mean that the preferred route does not fulfil requirements for environmental safety, and therefore, additional studies need to be carried out to find a safer alternative.

Public participation process has been screwed from the beginning. The project team failed to organize the fair and open participation process that would give the possibility to local impacted population to be involved in scoping process. It was argued by the Railway Company to avoid additional tensions within the local population, that represents a clear violation of Safeguard policies of the EBRD, EIB

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¹ Technical department of Georgian Water and Power (GWP), Professor Nino Kezevadze

and EU, as well as Aarhus Convention that has also been acknowledged by the compliance review report of the Project Compliance Mechanism of EBRD too, stating that: “the staff, by engaging with the Client about and then accepting a problematic scoping exercise that, despite the requirements of PR10, did not provide a meaningful opportunity for all stakeholders to engage with the Client during the scoping exercise, risked compromising its ability to maintain the distance needed to objectively and carefully undertake the type of project assessment that is envisaged by the ESP and that is the primary obligation of the Bank under the policy.”²

Even more, there were number of the cases of intimidation of affected people and landowners from the police was fixed during the ESIA public discussion period³ as well as during the project implementation.

Environmental and social concerns during the project implementation

Meanwhile, project implementation starts to raise more concerns that provide any solutions. As a result of poor environmental and social impact assessment and resettlement action plan hundreds of people experienced the involuntary resettlement (both physical and economic) without adequate compensation and cases of illegal expropriation. Actually, rights more than 860 landowners along the line have been violated by the railway company. Affected communities openly accuse Georgian Railway that it lower market price to landowners and forcing reluctant one to sign the transactions through intimidation methods.

The project failed to provide at least temporary employment opportunities – the railway is being constructed by the Georgian-Chinese company Khidmsheni and basically, the Chinese manpower is used.

Funding of the project

Tbilisi Bypass Railway project ideas first have been announced only in August 2009. In November of 2009, Tbilisi Bypass Railway projects have been provisionally approved by NIF, even before the ESIA was conducted.⁴

According to the Minutes of the board from November 17th, 2009, EBRD during its project presentation „announced its intention to possible request in the future, and in particular, once studies related to the project will be completed, further support from NIF to this project. The Chair communicated to EBRD the environmental concerns of the EC delegation in Georgia, to which EBRD replied. It was agreed that EBRD will take all necessary measures to prevent or mitigate the environmental risks mentioned. The Chair announced that the Public Environmental and Social impact Assessment report (ESIA) will be distributed to the board members, given the importance of the issues raised (land property, environmental impacts, etc). It was agreed the lead institution, and co-financiers will organize as soon as possible a coordination/information meeting on the project with all parties concerned, including EC delegation and MS embassies in Georgia⁵.” As a final decision board approved, the 6 million EU contribution from EC budget for environmental mitigations and launching written procedure for additional 2.5 mln from the NIF Trust fund for development of clean up plan. The NIF Trust grant was envisaged in a way to respond to the accordance the environmental concerns raised during the public consultation period.

15th December 2009, NIF secretariat launch written procedure for NIF Trust Fund Executive Committee to approve the allocation of additional 2.5 mln from NIF Trust fund to the project presented by EBRD: Tbilisi Railway Bypass –environmental clean up.

In May 2010, the European Bank for Reconstruction and Development and the European Investment Bank approved a 100 million Euro loan each for the Georgian Railway Ltd (100% state-owned company) to implement the Tbilisi Railway Bypass Project.

² PCM; Compliance Review Report; Page 26: http://www.ebrd.com/downloads/integrity/Tbilisi_cr_report_final.pdf

³ Letter of Vaja Beselia to Green Alternative; December 28, 2012;

⁴ Neighbourhood Investment Facility; Operational annual report 2009; page 14;

http://ec.europa.eu/europeaid/where/neighbourhood/regionalcooperation/irc/documents/en_vi_operational_annual_report_2009_nif_en.pdf ;

⁵ Minutes of NIF Operational Board, 17th November 2009

The Government of Georgia refused to take the subsidized EIB loan in September 2010 and the management of Georgian Railway claimed that the company would use USD 250 million Eurobonds issued on July 22, 2010 (percentage rate 9,875% per coupon).

Meanwhile, EBRD starts to receive the complaints to its compliance mechanism, both from affected landowners, as well as claims to investigate corruption from Tbilisi City Council Opposition fraction. As a response the audit and investigation process from the side of EBRD start, as well as the problem solving mechanism between EBRD, Georgian Railway company and affected people has been established. While the findings of investigations and audit were not public, EBRD was forced to postpone disbursement of loan before all claims were not cleared.

As the response to pressure to follow EBRD's social and environmental policy, in November 2011, Georgian Railway announced changing in its financing structure and refused EBRD's loan, as according to the company web site "the available revenue structure of Georgian Railway LLC doesn't need to attract any additional credits, and there was no necessity in using the EBRD loan. The project was financed by Georgian Railway's own resources, and the company hasn't used the money allocated by EBRD."⁶ According to media reports, the same time, the Georgian government was planning to launch initial public offering for minority stakes of some of the major state-owned enterprises, including of the Georgian Railway, last year. The government, however, decided to delay the move, citing "grave situation on the international stock markets."

On 16th March of 2012, the NIF operational board takes a decision to cancel the funding as a result of cancellation of the Loan Agreement between the Georgian Railway and the European Bank for Reconstruction and Development ('EBRD').

However, on April 27th, 2012 the Georgian Railway Company reported that Railway successfully finished EU project (European Union –European Commission Neighbourhood Investment Facility)⁷. According to the report it involves a study of ecological status of the land which will be freed up after construction of new Tbilisi Railway Bypass, the survey was conducted by the Danish consulting company COWI. The investigation provided detailed characterization of soil and groundwater contamination, an assessment of the risks to on and of site receptors, and remediation strategies for the entire area. As the results show the site is free from hazardous materials and ready for future development purposes.

General implications of the Railway project for Georgia

Due to the Tbilisi Railway Bypass project violations, there were socio-economic rights, mainly right on private property, for more than 900 people living in adjacent areas of the newly proposed railway line. The issues, related the potential environmental risks are still vivid.

In general, the implementation of this economically non beneficial project for Georgia might cost a lot. As the economists explain, "although, Georgia's foreign debt is not so big from theoretical point of view, the rates of its growth create the basis for concern. Ultimately, Georgia faces a serious challenge; despite self-restriction imposed by the Georgian Constitution, according to which the state debt should not exceed 60% of GDP, during last years the rate of growth of Georgia's debt exceeds the rate of GDP growth that should lead the authorities to the decision of "tightening their belts" and even freezing the debts. It is also important that Georgia minimizes budgetary deficit as one of the major factors of accumulating foreign debts as well as launches gradual redemption of emitted Eurobonds. The government should focus on Eurobonds emitted by the Georgian Railway as well as on serving the debts taken by the Railway"

Lessons that need to be learned or how to avoid problems in a future.

NIF board allocated up to 8,5 mln Euro for a project even before the ESIA studies were finalized and the estimation of total economic costs of the project, and its positive impacts was finalized. While it is not clear, also what was the

⁶ <http://www.railway.ge/?action=news&lang=eng&npid=209>

⁷ The EU (European Union - European Commission Neighborhood Investment Facility)-funded project was successfully completed http://www.railway.ge/?web=1&action=news_archive&lang=eng

rational from the side of the Banks and NIF to finance a project that ultimately has no economic benefits (in accordance with its own documentation), while it does not even ensure the ultimate goal of the idea – to increase the safety of Tbilisi's citizens from railway operations.

It should be taken into account that local EU office and CSOs in general have very good relation. Therefore, operation unit makes its best to incorporate in their notes the concerns of CSO groups regarding the project environmental and social issues. That was clearly witnessed from the operational board minutes.⁸

It should be stressed that itself the need of the project; its economic feasibility and benefit for the country never have been publicly discussed in Georgia. As first of all it falls out of the scope of the operation unit, as well as there is no notice that EU delegation in Georgia has been fully involved in project discussion from very beginning. Meanwhile, NIF governance structure designed in a way that there is no mechanism for any public participation and therefore NIF board can successfully ignore any public concern. Taken into account that project was from the beginning widely promoted by Government through stressing participation of European Financial Institutions and EU, as well follow up drastic impacts and outcomes of the project, it was widely reported within Georgian and International media⁹. However, it's really doubtful that project increases the EU visibility in the positive way.

⁸ Minutes of NIF Operational Board, 17th November 2009

⁹ Tbilisi's Discount Railway, <http://www.tol.org/client/article/22576-tbilis-discount-rail-bypass.html>