Executive summary

Georgia is well endowed with water resources and has no overall water scarcity. However, there is unsustainable abstraction of groundwater and surface water in a number of localities. Water variability, in the form of flooding and the occurrence of local and seasonal shortages, is a serious problem in many regions. There is an urgent need of better water resources management. This will require better and more systematic funding of these activities.

In 2014 Georgia signed an Association Agreement with the EU and made a commitment to approximate to the EU's Water Framework Directive. In order to harmonise Georgia's environmental legislation with the EU Directives the Ministry of Environment and Natural Resources Protection (MENRP) has drafted a new Framework Law on Water Resources Management. The draft law aims to encapsulate all aspects of integrated water resources management. The WFD also includes the systematic use of economic instruments, including water pricing, to recover the cost of water services provided to households, industry, and farmers.

At present, Georgia applies four categories of economic instruments for managing its water resources:

- fees for water abstraction
- user charges for water supply and sanitation in the form of water tariffs
- irrigation water supply tariffs
- fines for non-compliance with regulations concerning water resources.

In practice, water abstraction charges only apply to groundwater, since surface water is not subject to licensing. The charge is very low. The tariffs for water supply, sanitation and wastewater services are also very low, and combined with low collection rates mean that the revenues of water utilities fail to cover their costs of operation and maintenance. Only a minority of users are metered. Irrigation charges are likewise very low but this is part of more general problems in this sector. Institutional weaknesses, compounded by chronic mismanagement and under-investment have resulted in the major degradation of irrigation and drainage infrastructure.

In addition to the fines for non-compliance there is a liability payment system in the form of environmental damage compensation, which is levied if the concentration of pollutants in discharged wastewater exceeds maximum allowed levels. However, the environmental damage is estimated according to methodologies dating back to the Soviet era. In general, the level of fines and penalties greatly reduce the disincentive effect of these provisions.

A shortlist of economic instruments to be reformed has been identified in this study, following the assessment of the various options under a number of criteria. The main focus of this study was on actions that are (i) likely to be effective in achieving their aims, (ii) are considered feasible for Georgia at the current time, and which (iii) fall within the competency of the lead environmental ministry, the MENRP.

Identified *priority options for early implementation by MENRP* are:

- Restoration of a licensing regime covering both surface and groundwater abstraction, with abstraction charges based on the size of the licensed amount. This would include a category for non-consumptive abstraction, initially targeted at hydropower companies.
- Restoration of licensing of polluting discharges into surface and groundwater bodies, with pollution charges based on the amounts of licensed polluting substances.
- The more rigorous enforcement of the above licensing regimes, backed by fines set at levels that would deter offenders.

Complementary actions for implementation by other bodies and agencies are the following:

- Raising tariffs for water supply, sanitation and wastewater collection and treatment to cost-recovering levels, with an accelerated programme of metering for water users. This action would generate more funds for investment in new wastewater treatment plants (WWTPs) which are urgently needed to curb surface water pollution. They would also create incentives for more careful and efficient water use by consumers.
- Raising irrigation charges, with a more vigorous effort to collect fees due. Its purpose would be similar to that of the economic instruments above, namely to raise revenues necessary for investment and on-going costs in irrigation development, and to encourage farmers to adopt more water-efficient practices.
- Raising entry fees to National Parks and Protected areas, with concessional rates for deserving groups and higher rates for foreign visitors. Proceeds would be returned to agencies operating these facilities to contribute towards their upkeep and enhancement (the Ministry of Tourism and individual national parks and protected areas.).

Measures for serious further study and possible piloting

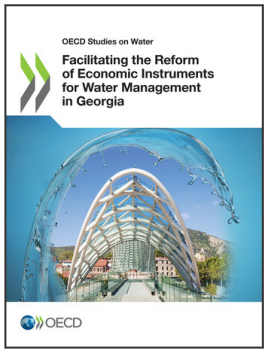
Within a longer time horizon, the following economic instruments are also worthy of consideration:

- The further development of the existing legal principle of environmental liability to reinforce the current regime of deterrence to the over-abstraction and pollution of water.
- The scope and potential for setting up one or more schemes of Payments for Ecosystem Services.
- Exploration with Azerbaijan of the feasibility of cost- and benefit-sharing projects to reduce pollution of transboundary rivers and lakes. Pollution of rivers and lakes in Eastern parts of Georgia is of concern both to Georgia and to the downstream parts of Western Azerbaijan.
- Study of the feasibility of creating an Environmental Fund, including its scope, potential beneficiaries, and the various options of financing this. Environmental Funds can be funded from various sources, which in some cases includes earmarking some of the proceeds from the abstraction and pollution charges. However, earmarking is not universally accepted as good practice. Nevertheless, Environmental Funds have been successfully used by many countries as an instrument of environmental policy and this option should be kept in reserve by the Georgian Government.

Priorities

Implementing the three economic instruments and enforcement measures recommended in this report will be greatly facilitated by the enactment of the new Water Law now being examined by the Government of Georgia. The Law contains several elements that are pre-conditions and essential complements for implementation of the economic instruments concerned.

The creation of a comprehensive and effective licensing regime is essential before viable abstraction and pollution charges are introduced. The draft Law provides the legislative grounding for this, but the monitoring and enforcement capacities of the National Environmental Agency will need to be strengthened, or in certain cases created afresh.



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