INTERNATIONAL FINANCE CORPORATION
AND
MULTILATERAL INVESTMENT GUARANTEE AGENCY

MANAGEMENT REPORT AND MANAGEMENT ACTION PLAN IN RELATION TO THE CAO COMPLIANCE INVESTIGATION REPORT

ON

ADJARISTSQALI GEORGIA LLC
GEORGIA-EUROPE
(IFC PROJECT NO. #33435 & #37781 AND
MIGA PROJECT NO. #12315)

June 10, 2025

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BAP	Biodiversity Action Plan
CAO	Office of the Compliance Advisor Ombudsman
CEI	Clean Energy Invest AS
CEMP	Construction Environmental Management Plan
CSR	Corporate Social Responsibility
DR	Dispute Resolution
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESRS	Environmental and Social Review Summary
GEL	Georgian Lari
GWh	Gigawatt hours
HPPs	Hydroelectric Power Plants
IESC	Independent Environmental and Social Consultant
IFC	International Finance Corporation
INR	Indian Rupee
km	Kilometer
LFMS	Low Flow Mitigation Strategy
LTA	Lenders' Technical Advisor
MAP	Management Action Plan
MW	Megawatt
MIGA	Multilateral Investment Guarantee Agency
O-BAP	Operational Biodiversity Action Plan
OSPF	Office of the Special Project Facilitator
PCM	Project Complaint Mechanism
PSs	IFC Environmental and Social Performance Standards
US$	United States Dollar
WBG	World Bank Group

EXECUTIVE SUMMARY

i. The International Finance Corporation (IFC), as part of the World Bank Group (WBG), is committed to financing, structuring, and leading complex transactions in emerging markets and providing implementation support. As part of this commitment, IFC invested in Adjaristsqali Georgia LLC[1] (AGL or the Company), a special purpose vehicle established to develop, construct, and operate a 187 megawatt (MW) hydropower scheme located in the southwest of the Republic of Georgia (the Project).

ii. The Multilateral Investment Guarantee Agency (MIGA), a member of the WBG, aims to promote the flow of investments for productive purposes to developing countries. To support this Project, MIGA provided political risk insurance for the equity investment of Tata Power International Pte. Limited in AGL.

iii. AGL is owned 50 percent by Clean Energy Invest AS (CEI) and 50 percent by Tata Power International PTE Limited (Tata Power).[2] The Project consists of two run-of-river hydroelectric power plants (HPPs) – the 178 megawatt (MW) Shuakhevi HPP and the 9 MW Skhalta HPP – as well as two dams, one weir, and 38 kilometers (kms) of tunnels. The Project was developed by CEI and IFC InfraVentures. In May 2014, IFC provided an A-loan of US$70 million and an equity investment of US$30.8 million, in addition to an IFC InfraVentures investment of US$2.6 million. In April 2015, MIGA issued a guarantee of US$63 million covering an equity investment by Tata Power International Pte. Ltd. of Singapore in AGL. The coverage was provided for a period of up to 15 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract. In 2020, IFC sold its equity stake to CEI and Tata Power pro-rata.

iv. In February 2018, the Compliance Advisor Ombudsman (CAO) of IFC and MIGA, the Project Complaint Mechanism (PCM) of the European Bank for Reconstruction and Development (EBRD), and the Office of the Special Project Facilitator (OSPF) of the Asian Development Bank (ADB) received a complaint signed by 17 residents of the Rabati neighborhood of the Makhalakidzeebi village, Shuakhevi Municipality in the Autonomous Republic of Adjara, Georgia.[3] The complaint raised concerns related to increased risks of rockfalls and landslides; decreased groundwater; and negative impacts on the biodiversity of the river, including the disappearance of local fish species, which they attributed to the Project's construction activities. CAO found the complaint eligible for further assessment in April 2018.

v. During the CAO assessment process, the complainants and AGL agreed to participate in a dispute resolution (DR) process jointly led by CAO and PCM and observed by OSPF, which took place between June 2018 and June 2020. The DR process concluded without reaching a final agreement, despite efforts by both parties to resolve the issues raised. PCM and OSPF closed the

[1] https://disclosures.ifc.org/project-detail/SII/33435/adjaristsqali-georgia-llc
[2] https://disclosures.ifc.org/project-detail/SII/33435/adjaristsqali-georgia-llc
[3] IFC and MIGA CAO case: https://www.cao-ombudsman.org/cases/georgia-agl-01makhalakidzeebi
EBRD PCM case: https://www.ebrd.com/home/what-we-do/projects/independent-project-accountability-mechanism/case-registry/shuakhevi-hpp.html
ADB OSPF case: https://www.adb.org/who-we-are/accountability-mechanism/complaint/georgia-adjaristsqali-hydropower-project

EBRD and ADB complaints, respectively, at the conclusion of the DR process. CAO transferred the IFC and MIGA complaint to CAO's compliance function in November 2020.

vi. CAO completed its compliance appraisal in December 2021, concluding that an investigation was warranted regarding the issues of groundwater flows and biodiversity. CAO observed that no major property damage occurred during Project construction and concluded that the risks of landslides and rock falls were properly addressed by AGL in Project design and construction. Consequently, rockfall and landslide issues were excluded from CAO's investigation. IFC and MIGA received CAO's compliance investigation report in April 2025.

vii. Regarding groundwater, IFC conducted thorough pre-investment Environmental and Social Due Diligence (ESDD), based on the ESIA, which identified the tunneling area as vulnerable to groundwater depletion and acknowledged the impracticality of mapping springs in the challenging terrain, opting instead for a holistic risk-based approach. Mitigation measures outlined in the Environmental and Social Management Plan included tunnel grouting to address groundwater risks and provisions in the Construction Environmental Management Plan to ensure alternative water supply in the event of drinking water loss due to construction activities.

viii. IFC agreed with AGL monitoring of water ingress in tunnels and water-related community grievances as a more efficient and risk-based approach than spring water monitoring. IFC acknowledges that timely actions were not undertaken during supervision in response to information about excessive water ingress from the Lenders' Technical Advisor (LTA) provided in 2016 quarterly reports, which should have promoted earlier grouting measures. However, AGL later implemented corrective actions, including localized tunnel grouting (2017), tunnel lining (2018-2020), and integrity monitoring (2020-present).

ix. While the 22 Rabati households, located on the same side of the river as the tunnel, would have been the only potentially impacted households, there is no evidence of groundwater impacts from the Chirukhitskali-Skhalta tunnel construction and an independent report commissioned by the Lenders did not find a linkage between the tunneling works and spring water issues expressed by the complainants. A community participatory monitoring program of 600 water springs established by AGL during construction also found only seasonally related fluctuations. Since 2017, no water-related grievances have been reported to the Project-level grievance mechanism.

x. Through its Corporate Social Responsibility program, AGL initiated and implemented a water supply project on a proactive and voluntary basis, together with the Municipality. The infrastructure project was jointly financed, while the Municipality developed the project and agreed to be responsible for ongoing maintenance. The current water supply system is fully operational, and a permanent water supply system is expected to be completed by September 2025 by the Municipality.

xi. Regarding biodiversity, IFC considers the pre-investment fish sampling sufficient for the final Area of Influence and notes minor gaps in biodiversity monitoring. CAO's report raised concerns that risks to critically endangered and threatened species, including the Black Sea salmon and European eel, were not adequately addressed during the Project evaluation and supervision phases. However, neither of these species has been positively observed within the final Area of Influence. The Black Sea salmon and European eel were found only downstream; these species

are considered absent in the upstream Adjaristsqali basin. More generally, AGL's Biodiversity Action Plan (BAP) and Environmental and Social Impact Assessment (ESIA) included mitigation measures to address risks to migratory species and aquatic habitats.

xii. AGL has conducted comprehensive fish species monitoring in the Project area since 2013, with sampling to track distribution and abundance patterns. Additionally, AGL has implemented various mitigation measures, including a functional fish pass at the Chirukhitskali weir and annual restocking of native Brown trout upstream of the dams. IFC considers AGL's monitoring survey methods to be appropriate, and data from the operational phase shows a strong recovery of fish populations in the Chirukhitskali River. The reestablishment of species abundance and richness confirms progress toward no net loss and sufficient environmental flow (e-flow) levels for connectivity.

xiii. IFC acknowledges the base e-flow did not account for the specific needs of key species, as e-flow practices were still evolving at the time and no critical habitat trigger species had been observed in the area covered by the scheme. However, the Low Flow Mitigation Strategy (LFMS) was based on extensive surveys conducted from 2012 to 2016. It recommends mitigation measures such as e-flow monitoring, flushing timed to avoid fish spawning periods, annual and post-flushing hydromorphological assessments, and fish pass monitoring at the Chirukhitskali weir, all of which have been implemented.

xiv. While IFC considers that CAO's findings do not meet the threshold of material adverse Harm as defined in the CAO Policy, IFC has worked with AGL to develop actions aligned with CAO's recommendations. As a voluntary action, AGL will continue to promote a long-term solution for water supply by the Municipality. AGL will also assess species population levels through a statistical trend analysis and e-flow suitability analysis. Where additional mitigation measures are considered necessary, these will be incorporated into the Operational Biodiversity Action Plan (O-BAP).

xv. IFC and MIGA appreciate the willingness and openness of the Company to engage with IFC and are grateful for its cooperation during IFC's site visit in May 2025. IFC acknowledges the complainants' decision not to engage with IFC on groundwater and biodiversity issues, but remains willing to engage with them in the future as part of regular Project supervision, should they choose to do so.

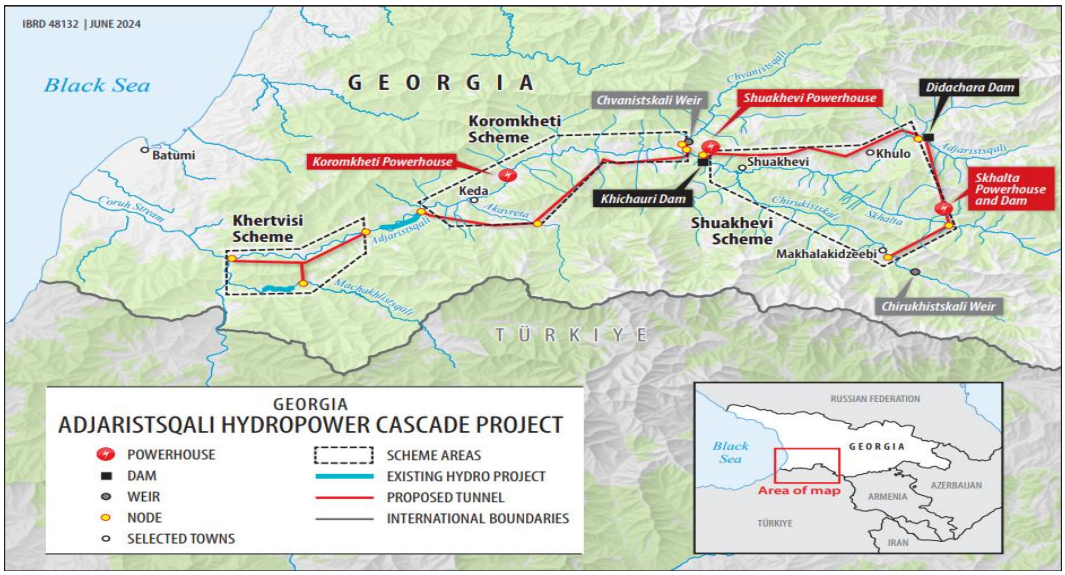
I. INTRODUCTION

1. This Management Report responds to the Compliance Advisor Ombudsman (CAO) investigation of a complaint that CAO received from 17 residents of the Rabati neighborhood of Makhalakidzeebi (the Complainants) in February 2018: AGL-01/Makhalakidzeebi.[1] The Management Report is organized into seven sections: (i) Section I is an Introduction; (ii) Section II outlines the Project; (iii) Section III summarizes the complaint and CAO process; (iv) Section IV presents the response of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) Management to CAO's compliance investigation findings and recommendations; (v) Section V reflects the efforts to consult with the Complainants and Company; (vi) Section VI presents the Management Action Plan (MAP); and (vii) Section VII provides the Conclusion. Annex 1 contains the MAP in table format.

II. THE PROJECT

2. Adjaristsqali Georgia LLC (AGL) is a Georgian special purpose vehicle established for the development, construction, and operation of a 187 MW hydropower scheme located in the southwest of the Republic of Georgia (the Project). The Project consists of two run-of-river hydroelectric power plants (HPPs) – the 178 megawatt (MW) Shuakhevi HPP and the 9 MW Skhalta HPP – as well as two dams, one weir, and 38 kilometers (kms) of tunnels. The Project was part of a larger hydropower cascade, which also included the downstream (Khertvisi) and midstream (Koromkheti) sections (see Figure 1). However, the Khertvisi and Koromkheti schemes were both dropped during the development stage. IFC financing (debt and equity) and a guarantee from the Multilateral Investment Guarantee Agency (MIGA) were provided to the Project as approved by IFC's Board (IFC/R2014-0097) and MIGA's Board (MIGA/R2014-0101).

Figure I. Map of AGL



[1] https://www.cao-ombudsman.org/cases/georgia-agl-01makhalakidzeebi

3. The Project is jointly owned by Clean Energy Invest AS (CEI) and Tata Power, each holding a 50 percent stake (together, the Shareholders). The Project was jointly developed by CEI and IFC InfraVentures, a global infrastructure project development fund created by the World Bank Group in which IFC acts as co-developer with private sector developers. The Joint Development Agreement was signed in April 2011. IFC invested US$2.6 million for development costs and Tata Power joined as a strategic partner in the Project.

4. CEI was established in February 2010 by the Clean Energy Group management team, with the intention of investing in hydropower projects in emerging markets. CEI is 96 percent owned by Norsk Mineral AS, a family-owned Norwegian industrial company with interests in mining, technology, energy, property, and finance, and 4 percent by the Clean Energy Group management team, consisting of a group of professionals with extensive experience from companies such as Statkraft Energy and SN Power. Georgia is currently its sole market of operations.

5. Tata Power is held by Tata Sons Limited (one of the two holding companies in Tata Group) and has interests in fuel, fuel transportation, power generation, distribution, and transmission business. India's largest private power company, it owns a total of 15.6 GW power installed capacity comprising 6.7 GW renewable and 8.9 GW conventional. The company expanded in India after private sector reforms in the 1990s and has made a push for international diversification in the last decade. It is listed on the Bombay Stock Exchange and the National Stock Exchange of India and had a market cap of INR 1.26 trillion (~US$15 billion) as of June 10, 2025.

6. The Project was under construction during 2014-2020. In October 2017, several tunnel collapses occurred due to cracking and loss of rock strength from insufficient support during construction and the presence of swelling rock formations. Tunnel repair works commenced in 2018, and the Project reached completion and started operations in 2020. The Project continues in the operational phase today.

7. The AGL Project is categorized as Environmental and Social (E&S) Category A due to significant E&S impacts. All the Performance Standards (PSs) except PS7 are applicable; PS7 is excluded as there are no indigenous communities affected. The Independent Environmental and Social Consultant (IESC) provided due diligence services during preparation and now provides ongoing E&S compliance monitoring services. The Environmental and Social Review Summary (ESRS) and Environmental and Social Action Plan (ESAP) were disclosed in October 2013. Construction of the Project started in 2014, with commercial operations starting in 2020 for the Shuakhevi HPP and 2021 for the Skhalta HPP. Supervision includes regular monitoring and reporting, yearly site visits, E&S Monitoring Reports by the Lenders' IESC, and review of Annual Monitoring Reports submitted by AGL.

Development Outcomes

8. The Project supports Georgia in enhancing its energy independence and green transition. AGL helps meet the country's electricity demand in winter months of energy deficit, reduce Georgia's dependence on imported electricity and fuel, and avoid carbon emissions. The Project increases the country's net renewable energy output by approximately 415 gigawatt hours (GWh) per year, corresponding to around 3 percent of annual energy generation. AGL facilitates cross-

border energy trade by exporting to Türkiye, helping to meet high energy demand during summer periods.

9. The Project employs 72 people, including 13 women. During the construction phase, it provided employment opportunities in unskilled labor for local workers and delivered basic training to over 600 people from nearby villages. In addition, the upgraded and newly constructed public roads implemented as part of the Project improved connectivity and safety, and reduced travel time for local communities.

IFC's Investment

10. IFC invested in AGL to support an increase in renewable energy output, reduction in greenhouse gas emissions, attraction of investment, facilitation of cross-border energy trade, and job creation. The total investment cost of the Project was US$416 million. The Shareholders provided US$135 million in equity. In 2014, IFC provided an equity investment of US$30.8 million and an A-loan of US$70 million (IFC/R2014-0097) and was the lead arranger of the financing package. The Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD) joined IFC (collectively, the Senior Lenders) as co-lenders participating with senior loans of US$90 million each (together with IFC's A-loan, the Senior Loans). All equity and debt have been fully disbursed. In 2020, IFC sold its equity stake to CEI and Tata pro-rata.

11. In February 2019, IFC's Board approved the restructuring of the existing IFC financing for the Project (IFC/R2019-0028), to enable the release of insurance proceeds and additional equity injection from the Sponsors, which was necessary to complete tunnel repairs. The Project operates in line with expectations following the completion of tunnel repair works in 2020. The IFC outstanding loan amount is US$67.2 million as of June 2025, with final maturity in 2034.

MIGA Guarantee

12. On April 9, 2015, MIGA issued a guarantee of US$63 million covering an equity investment by Tata Power International Pte. Ltd. of Singapore (the Guarantee Holder) in AGL.[2] The coverage is for a period of up to 15 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract.

13. IFC and MIGA agreed, in accordance with MIGA's Policy on Environmental and Social Sustainability, that MIGA would rely on IFC for E&S due diligence and monitoring of this joint Project. This response therefore focuses primarily on IFC's role, with reference to MIGA where relevant. MIGA will, to the extent possible, support IFC and AGL in the implementation of the MAP and facilitate coordination with the Guarantee Holder.

[2] https://www.miga.org/project/adjaristsqali-hydro-project

III. CAO COMPLAINT

14. In February 2018, the CAO of IFC and MIGA, the Project Complaint Mechanism (PCM) of EBRD, and the Office of the Special Project Facilitator (OSPF) of ADB received a complaint signed by 17 residents of the Rabati neighborhood of Makhalakidzeebi village (community members), Shuakhevi Municipality, in the Autonomous Republic of Adjara, Georgia.[3] The complaint raised concerns related to increased risks of rockfalls and landslides; decreased groundwater; and negative impacts on the biodiversity of the river, including the disappearance of local fish species, which they attributed to the Project's construction activities. CAO found the complaint eligible for further assessment in April 2018.

15. During the CAO assessment process, the complainants and AGL agreed to participate in a dispute resolution (DR) process jointly led by CAO and PCM and observed by OSPF, which took place between June 2018 and June 2020. The DR process concluded without reaching a final agreement, despite efforts by both parties to resolve the issues raised. PCM and OSPF closed the EBRD and ADB complaints at the conclusion of the DR process. CAO transferred the IFC and MIGA complaint to CAO's compliance function in November 2020.

16. CAO completed its compliance appraisal in December 2021, concluding that an investigation was warranted regarding the issues of groundwater flows and biodiversity. CAO observed that no major property damage occurred during Project construction and concluded that the risks of landslides and rock falls were properly addressed by AGL in Project design and construction. Consequently, rockfall and landslide issues were excluded from CAO's investigation. IFC and MIGA received CAO's compliance investigation report in April 2025.

17. CAO's report acknowledged the community's concerns about landslides and land instability but found no direct causal link between the Project and landslide risks. On groundwater and biodiversity, CAO found inadequacies in IFC's due diligence and supervision. CAO found that the complainants depend on spring water for domestic consumption, although complexities of the landscape and limited baseline information made it difficult to conclusively determine whether tunnel construction affected the springs and aquatic and riparian ecosystems. CAO made Project-specific recommendations on groundwater and biodiversity.

EBRD PCM Complaint

18. In July 2018, EBRD's PCM received a second complaint, citing a number of E&S concerns regarding the Project. The EBRD Board approved the appointment of a PCM Expert to undertake the Compliance Review in July 2019. The PCM Expert completed the investigation in March 2021. EBRD's MAP in response to the non-compliance findings and recommendations was approved by its Board in October 2022.

[3] IFC and MIGA CAO case: https://www.cao-ombudsman.org/cases/georgia-agl-01makhalakidzeebi
EBRD PCM case: https://www.ebrd.com/home/what-we-do/projects/independent-project-accountability-mechanism/case-registry/shuakhevi-hpp.html
ADB OSPF case: https://www.adb.org/who-we-are/accountability-mechanism/complaint/georgia-adjaristsqali-hydropower-project

19. EBRD's MAP included ensuring compliance with updated policies and practices, such as defining a project's area of influence, integrating technical and E&S workstreams, and establishing baselines for natural resource use. The MAP emphasizes ongoing monitoring and updates to plans like the Stakeholder Engagement Plan and Operational Biodiversity Action Plan (O-BAP) to address non-compliance in project implementation. It also highlights the importance of addressing operational phase impacts, maintaining grievance mechanisms, and ensuring transparency through regular updates and stakeholder engagement. MAP actions either have been completed or will be part of ongoing monitoring. IFC considered EBRD's MAP in developing its own MAP, to align approaches, promote consistency, and enhance collaboration among Lenders.

IV. MANAGEMENT RESPONSE

20. IFC and MIGA Management acknowledge the important issues raised in the complaint and respect CAO's process in its assessment of the complaint. This section responds to CAO's findings and recommendations and explains Management's perspectives as to the requirements under the Sustainability Framework[4] in relation to the issues raised.

Groundwater

Due Diligence

Groundwater Baseline: *CAO finds that IFC's ESDD did not identify or address the client's performance gap with PS1 (para. 7) and PS6 (para. 24), resulting in a lack of baseline information on groundwater uses and the quantity and quality of groundwater provided by specific springs to communities who depend on them, contrary to its Sustainability Policy commitments (paras. 7, 26, and 28).*

Mitigation Measures for Potential Impacts on Groundwater: *CAO finds that while IFC's pre-investment review was commensurate to these risks, IFC did not meet the requirement under the Sustainability Policy to seek "to ensure, through its due diligence, monitoring, and supervision efforts, that the business activities it finances are implemented in accordance with the requirements of the Performance Standards" when it came to managing project impacts on and risks to groundwater resources. PS1 (para. 13) requires IFC clients to establish management programs with mitigation measures addressing all identified project E&S risks and impacts with the level of detail and complexity commensurate with these risk and impacts (para. 15). The key mitigation measures identified by the ESIA to manage groundwater impacts and risks were not included in the project ESAP, the CEMP or other E&S risk mitigation project documents. As a result, IFC's supervision of its investment in AGL was compromised in relation to the client's implementation of tunnel grouting measures and the provision of alternative water supply to affected communities. This meant, in turn, that IFC's Sustainability Policy commitment to verify client compliance with PS1 and PS6 requirements was also compromised.*

21. IFC conducted thorough pre-investment Environmental and Social Due Diligence (ESDD) through a comprehensive review of the Environmental and Social Impact Assessment (ESIA) and subsequent detailed hydrogeological studies. These assessments identified the entire area subject to tunneling as vulnerable to potential groundwater depletion.

[4] IFC's investment in the Company in 2014 was subject to the 2012 Sustainability Policy and Performance Standards, together considered the IFC Sustainability Framework. MIGA's guarantee for the project was subject to MIGA's 2013 Sustainability Policy and Performance Standards, together considered the MIGA Sustainability Framework.

22. The ESIA also recognized the inherent risks and technical challenges associated with mapping springs in inaccessible terrain.[5] Considering the extensive catchment area of over 5,000 hectares and the difficult landscape, characterized by challenging and steep slopes, identifying individual springs in the region was deemed both dangerous and impractical. In addition, baseline monitoring of water inflow into the collection tanks utilized by local communities could not have provided accurate quantitative information on the spring yield, due to the inclusion of rainwater and potential losses from loose piping connections. Pre-project mapping and monitoring of springs would not have yielded additional insight into the identified risks.

23. Consequently, IFC agreed with AGL not collecting spring baseline information, as the ESIA adopted a holistic, risk-based approach. The mitigation strategy relied on the initial engineering requirement to perform localized grouting in case of excess water ingress in the tunnel; if implemented, this was expected to reduce the risk of groundwater depletion due to tunnel construction. Lining was not included in the original Project design. However, after the collapse of sections of the Skhalta-Didajara and Didajara-Shuakhevi tunnels, lining was implemented as a corrective action in all tunnels, including the Chirukhitskali-Skhalta tunnel nearest to Makhalakidzeebi, which did not collapse.[6]

24. The ESIA's Environmental and Social Management Plan (ESMP) included measures to address the potential loss of drinking water during construction. The obligation to review any complaints from local communities concerning water resource impacts and provide technical solutions or alternative water supply in the event of drinking water loss due to construction activities was explicitly outlined in the Construction Environmental Management Plan (CEMP): Water Resources and Water Quality Management Plan. The ESAP would not have included actions related to potential water scarcity, as these risks were already covered by the in-place management plans, rather than being gaps identified during the ESDD.[7] These obligations were also emphasized in IFC's ESRS.

Supervision

***Spring Water Monitoring**: CAO finds that IFC failed adequately to supervise implementation of spring water monitoring as an established mitigation measure to prevent impacts to groundwater and related ecosystem services to communities during tunnel construction. Project documents suggest that IFC did not access or analyze spring water monitoring data to assess whether tunneling works were impacting local springs. Similarly, during supervision IFC did not require the client to use spring monitoring data to inform project implementation. PS1 requires the client to establish and implement mitigation measures to manage significant environmental impacts, such as impacts to groundwater and associated springs, and the Sustainability Policy (paras. 7, 45) requires IFC to supervise client PS compliance. In this case, CAO finds that IFC did not supervise implementation of spring water monitoring to establish that the mitigation measures AGL employed effectively*

[5] The yield of a spring is a complex parameter to monitor that requires: 1) the point of emergence of the spring water from the host rock to be clearly identifiable; 2) the installation of a "brace and weir" system at the point of emergence, or along the line of emergence if the spring is associated with a fracture system; and 3) monitoring frequency to be correlated to meteorological events.

[6] Localized grouting is the targeted injection of grout into specific areas to seal leaks, fill voids, or to stop water ingress. Lining is a continuous structural layer (e.g., concrete, shotcrete, or steel) installed along the tunnel to provide stability, support, and protection against ground pressure and water ingress.

[7] IFC's ESAP guidance clarifies that action items should be limited to activities not covered by the client's management programs at the time of IFC's disclosure. Noteworthy actions already specified in clients' management programs or ESIA management plans should be highlighted in the ESRS.

prevented impacts to groundwater and springs used by local communities during tunnel construction. As a result, IFC could not ensure its client's conformance with the relevant PS1 provisions.

***Tunnel Grouting and Lining**: CAO finds that IFC fell short of its Sustainability Policy obligations (paras. 7, 45) to supervise AGL to implement appropriate mitigation measures during the hydropower scheme's construction in conformance with PS1, for the following reasons: IFC's ESDD concluded that the project would meet PS1 requirements on the basis that grouting and lining would prevent excess ingress water during tunnel construction, which could not proceed with excess ingress water levels. This view was based on the ESIA and ESMP and the 2013 hydrogeological desktop review AGL commissioned, all of which reinforced the importance of tunnel grouting and lining to prevent negative construction impacts on local groundwater and springs. However, the project ESAP did not address tunnel grouting and lining, and IFC took no action to address those issues as part of E&S supervision during the construction phase. IFC inaction continued despite construction reports from the Independent Engineer that described excess ingress water during tunnel construction, inadequate grouting and lining, and continuous tunnel construction despite high levels of ingress water.*

***Water Supply to Communities**: CAO finds that IFC did not meet its obligation under the Sustainability Policy (paras. 7, 9, and 45) during supervision, for the following reasons: IFC did not assure that the project's water supply initiatives met the objectives stated in the project E&S Management Plan of providing clean and sufficient water on a reliable basis. IFC was aware that the water supply project was sub-optimal and did not require the client to provide the project-affected community with reliable and adequate supply of clean water. IFC did not work with its client to improve the project's performance in this regard. Consequently, CAO finds that IFC did not ensure the client incorporated the necessary measures to address identified E&S risks and impacts associated with water availability, as proposed in the ESIA, resulting in a failure to ensure client compliance with PS1 (paras. 13, 15, and 16).*

25. IFC agreed with AGL monitoring of water ingress in tunnels and water-related community grievances as a more efficient and risk-based approach than spring water monitoring. IFC acknowledges that timely actions were not undertaken during supervision in response to information about excessive water ingress provided in 2016 quarterly reports from the Lenders' Technical Advisor (LTA), which should have promoted implementation of grouting in a timely manner. Corrective measures were later implemented by AGL, including localized tunnel grouting (2017), tunnel lining (2018-2020), and integrity monitoring (2020-present).

26. Geographically, the Chirukhitskali-Skhalta tunnel was built on the opposite side of the river from the majority of the Makhalakidzeebi households. Consequently, the main part of the village falls within a different catchment area, and tunnel construction would not have affected the groundwater in that region due to this geographic separation. The 22 Rabati households, which are considered part of Makhalakidzeebi, are located on the same side of the river as the tunnel, placing them in the same catchment area. If the tunnel construction had any temporary effect on groundwater, the only households potentially affected would have been the Rabati households.

27. However, there is no evidence of groundwater impacts from the Chirukhitskali-Skhalta tunnel construction. While the Chirukhitskali-Skhalta tunnel nearest to Makhalakidzeebi did not collapse, the collapse of sections of the other two tunnels prompted corrective measures in all tunnels, including installation of lining between 2018 and 2020. An independent report commissioned by the Lenders Group in 2020 did not find a linkage between the tunneling works and spring water issues expressed by the complainants.

28. In 2015-2016, AGL initiated and implemented a water supply project in the Makhalakidzeebi village – including the 22 Rabati households – on a proactive and voluntary basis

through its Corporate Social Responsibility (CSR) program, together with the Shuakhevi Municipality. The resulting infrastructure project was developed by the Municipality and jointly financed by the Municipality and AGL, with a signed Memorandum of Understanding documenting the agreement. They also agreed that ongoing maintenance would be the Municipality's responsibility once the catchment tanks and pipelines were installed.

29. During the construction period, from 2014 to 2016, AGL also implemented a community participatory monitoring program of 600 water springs across the Project area. The results of the monitoring program showed that fluctuations were seasonally related, rather than Project-related. Consequently, in December 2016, the Ministry of Environment and Natural Resources Protection accepted AGL's proposal to end spring water monitoring.

30. During the same time, IFC supervised potential impacts on water resources through review of grievances in the Annual Monitoring Report. No water-related grievances have been received by AGL from local communities since 2017.

31. Currently the water supply system is functional in Makhalakidzeebi, including the Rabati neighborhood. An IFC site visit in May 2025 confirmed the sufficiency of the water supply to Makhalakidzeebi (including Rabati), indicating that the water supply system implemented by AGL and the Municipality in 2016 continues to be operational. Water tanks are full, and households receive constantly running water; even without a tap to stop the flow, water supply is not diminished. Water in the tanks is collected from springs, from a different catchment than the tunnel construction, and is visually clear. IFC staff visited the tanks with the community member contracted by the Municipality to maintain the tanks.

32. While the current water supply is abundant, the Municipality has commissioned a permanent water supply system, as part of a broader regional infrastructure improvement plan, which will also include water treatment systems. A contractor has been selected, and the Municipality has provided an estimated September 2025 completion date for Makhalakidzeebi, including the Rabati neighborhood.

Biodiversity

Due Diligence

In terms of the biodiversity baseline, the assessment of project impact on biodiversity and ecosystem services, and the project mitigation measures, CAO found that:

- *The fish baseline conducted had shortcomings due to, a) the change of project design and area of influence, b) the frequency of surveys conducted, c) the limitations of annual sampling, and d) the attention to vulnerable and critically endangered species. This resulted in a lack of baseline information commensurate to the nature and scale of a hydropower project in an area known for biodiversity and endemic species.*
- *IFC E&S due diligence did not identify the gaps in the project ESIA and BAP regarding the mitigation measures and established environmental flow of 10% annual average, despite the biological importance of the area, the presence of endangered and vulnerable species of fauna and flora, and the pressures their populations face. The project mainly relied on help from the overflow and tributaries to minimize the impact*

on aquatic habitat, and did not analyze in detail what species would be affected by the water flow reduction of 90%, despite having identified protected species in the area.

Ultimately, the shortcomings in the biodiversity baseline, the insufficient analysis of an appropriate ecological flow and appropriate mitigation measures to achieve no net loss, and the lack of consideration of the project's location in a natural or critical natural habitat all point to a significant shortcoming in IFC's pre-investment E&S due diligence. As a result, CAO concluded that IFC's ESDD did not properly assure that the client identified and assessed potential impacts to biodiversity as required by Performance Standard 1 (para. 7) and 6 (para. 6, 7, and 15) commensurate with the level of environmental and social risks and impacts to achieve a no net loss and with the nature and scale of the proposed project, in compliance with the Sustainability Policy (para. 7, 26 and 28).

Biodiversity Baseline

33. IFC considers the fish sampling to be sufficient, as the baseline covered the initial Area of Influence (three schemes), including the final Area of Influence (ultimately reduced to one scheme). For the Project area, sampling prior to construction took place over several years (2011-2014) and seasons, encompassing both baseline and pre-construction monitoring. This approach was deemed appropriate for capturing general distribution and abundance patterns prior to Project implementation. In 2016, AGL commissioned a third-party ecological baseline review to determine compliance with Lender requirements, including IFC PS6 and EBRD Performance Requirement 6 (PR6). The international consultant undertaking the review confirmed that the fish species baseline sampling was developed in alignment with PS6.[8]

34. CAO's report raised concerns that risks to critically endangered and threatened species, including the Black Sea salmon and European eel, were not adequately addressed during the Project evaluation and supervision phases. However, neither of these species has been positively observed within the Project's final Area of Influence. The Black Sea salmon (*Salmo labrax pallas*) and European eel (*Anguilla anguilla)* were only found in the Khertvisi scheme and anecdotally reported from the Koromkheti scheme, both outside the final Area of Influence. The ESIA consultant, in consultation with independent local fisheries experts from the Black Sea Monitoring Agency, concluded that both species are only found downstream (Coruh Stream and Machakhlistsqali River). No evidence was found for their presence in the Project's final Area of Influence.

35. The Black Sea salmon does not have a restricted range, as defined by PS6. The species was only recorded in 2013 in the lower sections of the Adjaristsqali River and in the Akavreta River, outside of the Project area. The data collected from fishermen during the ESIA also did not indicate the species as being relevant in catches, implying limited risk from the Project.[9]

[8] In 2016 a reputable international consultant was commissioned to undertake an ecological baseline review to determine whether the Project was compliant with Lender requirements, including IFC PS6 and EBRD PR6. The analysis, which is publicly available, found "the data to be sufficiently robust to understand the species (in particular fish species) that are present in the reaches influenced by the Project and in key tributaries. It has also been determined sufficient to provide information on the location of sensitive habitats such as spawning. Overall, the data has been considered sufficient to support an assessment of impacts at the scale of river reaches for all river systems influenced by the Project." Shuakhevi Hydropower Project - Ecological Baseline Report (2016).

[9] There is also a potential taxonomic confusion in surveys in the Project area, as it is possible that the presence of an anadromous species of Brown trout *(S. tuttra*) was mistaken for the Black Sea salmon.

36. During the baseline sampling, the European eel's presence was only referred to once in the Adjaristsqali River, again outside the final Area of Influence. This was confirmed by data collected from fishermen during the ESIA development, as they did not indicate eel as a relevant species in catches.

37. Consequently, the Black Sea salmon and European eel were considered to be rare in the wider basin, and absent from the Project area. Nevertheless, if present, these species would benefit from the mitigation measures directed toward other fish species and aquatic habitats. AGL developed a construction phase Biodiversity Action Plan (BAP), which, together with the ESIA, covered the overall risks to migratory species and connectivity.

Environmental Flow

38. AGL created a Low Flow Mitigation Strategy (LFMS) in 2017 to address potential impacts on three rivers.[10] Mitigation actions included environmental flow (e-flow) monitoring, seasonally-timed flow releases, annual and post-flushing assessment of river hydromorphology, fish pass construction at Chirukhitskali weir, and fish restocking at Didajara and Skhalta dams. The strategy aimed to prevent biodiversity loss by considering species identified in surveys.

39. The Lender Group, including IFC, accepted AGL's proposal for a two-phased approach to address the impact of reduced e-flow. In Phase I, environmental permitting was granted allowing 10 percent e-flow, in line with common practice for HPP schemes in Georgia at that time. To assess the potential impact downstream, a range of surveys supplemented the Project's ESIA.[11] Phase II surveys[12] addressed the ESAP Action 16 (BAP implementation) "to verify flows are adequate to preserve biodiversity, or to redefine minimum flow." However, natural flow conditions did not fall below 19 percent of the annual average during the survey period (2012-2016), hence the permitted flow condition was subsequently not assessed (BAP 2016). Consequently, AGL developed the LFMS, which committed the Project to post-flushing and annual hydromorphological assessments intended to ensure that minimum conditions for fish mobility were maintained.

40. IFC considers that the overall risks to migratory species and connectivity were sufficiently covered in the ESIA and BAP. If additional risks are detected during monitoring, these would be considered in the initial BAP and subsequent Operational BAP (O-BAP), which is a living document.

[10] The three rivers refer to the Adjaristsqali River, Skhalta River and Chirukhitskali River.

[11] Additional surveys, carried out between 2012 and 2016, included mesohabitat mapping, flow measurements, fish surveys, and macroinvertebrate surveys. The survey team comprised an ecologist and a hydrologist from Mott MacDonald, three local ichthyologists (independent specialists sourced through the Black Sea Monitoring Agency), and local hydrology technicians (provided by Gross Energy Georgia), along with an expert from the Norwegian-based Centre for Environmental Design of Renewable Energy for the 2012 surveys.

[12] The Norwegian Mesohabitats Survey method (NMSM) for meso-habitat mapping used data to classify river habitat using parameters such as surface flow, gradient, velocity, and depth.

Supervision

In terms of IFC's supervision of project impacts on biodiversity and environmental flow, CAO found that:

- *The loss of aquatic habitats identified in the monitoring reports is classified as of low significance, without analysis to support the conclusion. However, the loss of these habitats indicates a potential net loss of biodiversity regardless of the existence of similar habitats downstream of the dams. Yet, there is no evidence that these identified impacts on river habitats have been adequately mitigated or compensated in line with PS6.*
- *From the data available to CAO, and the trend analysis conducted in 2020, a decline in diversity of fish species was identified during project construction. Additionally, data on the abundance of these species was not collected.*
- *Mitigation and offsetting measures to reduce the impact on fishing included the incorporation of a fish pass in the Chirukhitskali weir and the restocking of native fish, which have been implemented. The fish pass has been integrated and monitored for efficiency, and restocking efforts for Black Sea trout/brown trout have been ongoing since 2021. However, the decline in fish species diversity and abundance downstream of the Chirukhitskali weir between 2014 and 2020 has also negatively affected recreational fishing in the area. In addition, to date, CAO is uncertain of the success of the restocking efforts under environmental flow conditions of 10% of annual average.*
- *The restocking of impacted fish species has been limited to Salmo labrax fario and not extended to non-trout species as initially recommended by the project consultants. Additionally, this action will likely have impacted the ecological equilibrium of the aquatic habitat. There was no analysis presented of the potential impact of introducing large numbers of one species (Salmo larax f.) on other aquatic species with which they would compete for resources in a habitat reduced by 90% in size.*
- *The limited scope of the baseline (too few sampling locations and insufficient frequency of monitoring) in combination with the subsequent changes in fish monitoring methodology (change of sampling locations and change from annual to quarterly monitoring) represent significant flaws that inhibit an accurate assessment of the project's aquatic impacts.*
- *While from 2015 until 2019 IFC supervision reports consistently note shortcomings with the biodiversity reporting provided by the client, IFC failed to ensure timely compliance during project construction. Instead, the client persistently neglected to address the existing gaps and did not demonstrate the impact of the project on the biodiversity baseline, or how adaptive management was being implemented.*
- *The project's environmental flow methodology was designed to determine the hydrological conditions and ecological requirements of the river system and to account for and reduce the impacts of the project on river species and habitat. However, in implementation, CAO notes that this has not been demonstrated, as spawning habitats present in river reaches have been determined to be lost or degraded due to project impacts on access to and from spawning sites, in addition to the loss of spawning habitat due to inundation of the reservoir area. The dams have changed the equilibrium of the river, and the new equilibrium will be with reduced habitat availability, including spawning habitat. The scale of the impact on aquatic habitats and species could potentially be mitigated to varying degrees based on a range of scenarios that increase the environmental flow to 20-30-40%, as per the DRIFT methodology. However, in the absence of any proposed adjustment in environmental flow, PS6 requires offsets to compensate for these residual impacts.*

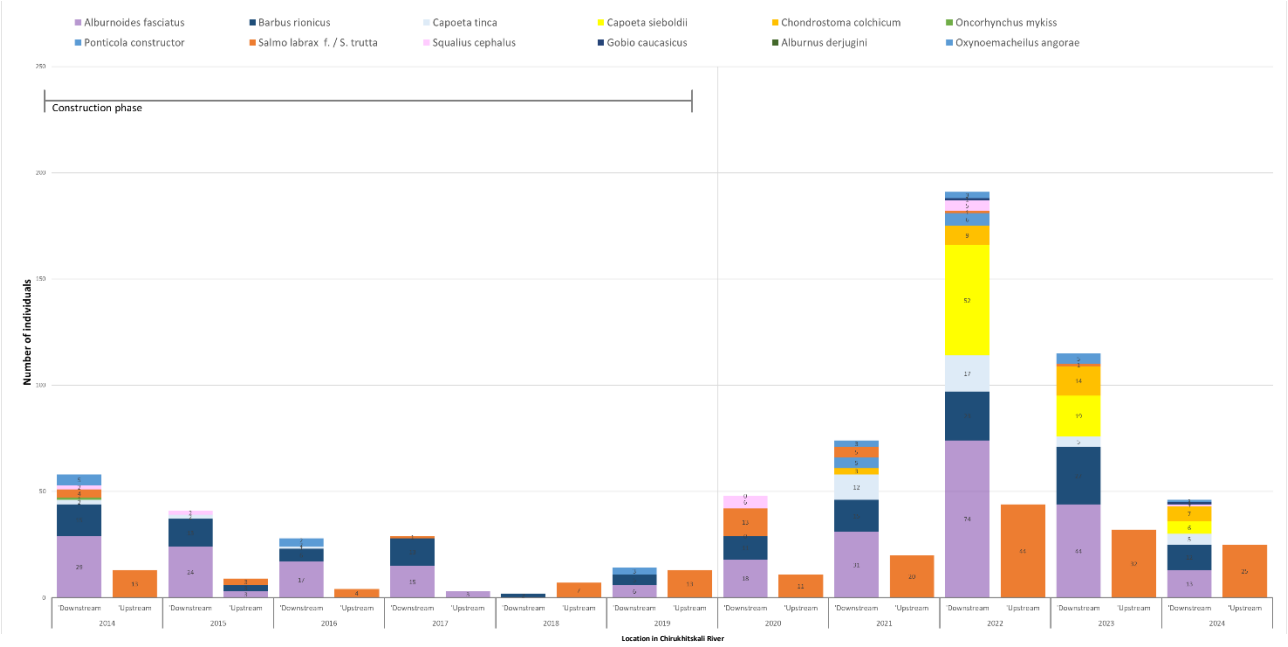
CAO has not found any evidence that the environmental flow analysis has been undertaken with specific reference to the natural habitat needs to achieve no net loss. In particular, there is no information to establish whether the environmental flows are adequate to mitigate the project impacts on biodiversity, including endemic species of high conservation value such as the Black Sea salmon (Salmo labrax pallas), European eel (Anguilla anguilla), Colchic khramulya, Colchic nase, Caucasian goby, and Eurasian otter (Lutra lutra), in line with PS6. Therefore, CAO finds that IFC fell short of its obligations under the Sustainability Policy (paras. 7 and 45) to supervise its client to implement the appropriate mitigation or offset measures to achieve no net loss in conformance with PS6 (para. 15). IFC failed to ensure that the project was achieving no net loss, particularly with respect to preventing impacts on endemic, endangered and vulnerable species, such as the Black Sea salmon, European eel, and Eurasian otter, as required by PS6.

Biodiversity monitoring

41. From the construction period in 2014 to date, AGL has conducted robust fish species monitoring in the Project area. In 2013, monitoring was undertaken on a monthly basis, and from 2014 onwards, four times per year (early spring to late autumn). Annual sampling covered the Adjaristsqali basin, including the Project Area of Influence, and control sites in unaffected areas. This comprised 21 sites from 2010 through 2013 and 15 sites from 2014, across the construction phase and presently continuing in the operational phase. All specialists involved in the Project considered this approach to be appropriate for capturing general distribution and abundance patterns prior to Project implementation.

42. Monitoring data throughout the operational phase in the Chirukhitskali River indicates a strong recovery of the fish population, confirming progress toward no net loss. The temporary decline of the fish population during construction (2014-2019) reversed and has recovered during the operational phase (2020-2025).[13] These results suggest that the current e-flow levels are sufficient to allow connectivity through Chirukhitskali River.[14] Species abundance and richness have been reestablished, indicating operational e-flow sufficiency (see Figures II and III).

Figure II. Fish abundance by species upstream and downstream in the Chirukhitskali River[15]

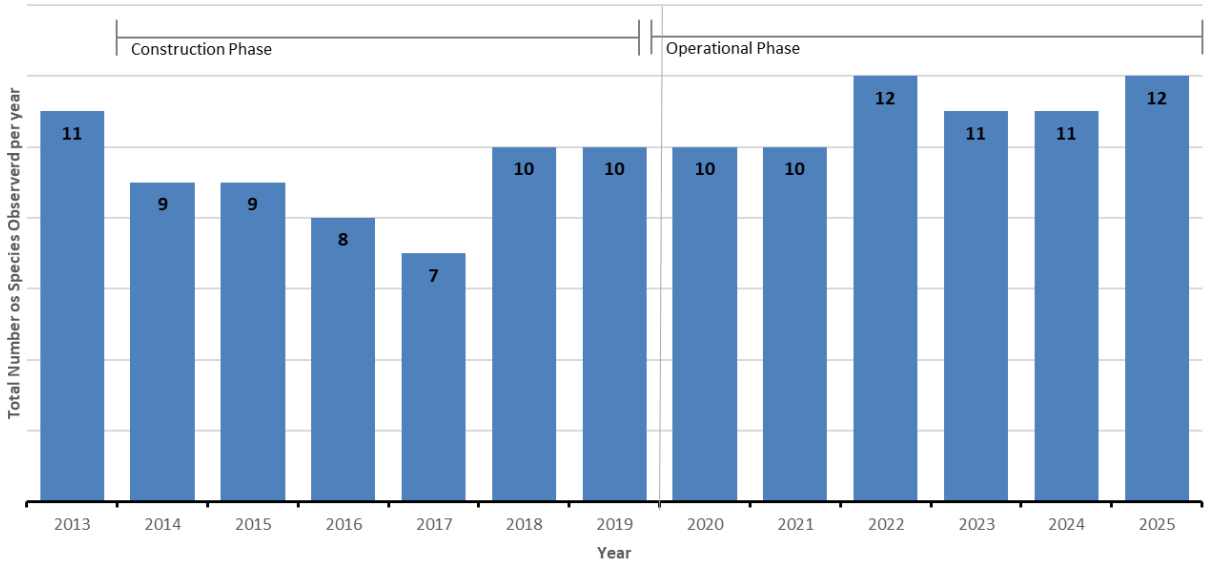


[13] The peak depicted in the 2022 graph is considered to be an outlier, i.e., a data point deviating considerably from the expected values or general trend. This may result from various factors, including unusual environmental conditions or variances in fish behavior. The overall trend, confirmed by international consultants, including expert ichthyologists, is that fish populations have re-established themselves since the construction years.

[14] Since all salmonoids (freshwater or otherwise) have similar habitat requirements, this also suggests that the Black Sea salmon (*S.labrax pallas*) could also migrate through the Chirukhistkali weir, should it be present.

[15] As noted above regarding the biodiversity baseline, there is a potential taxonomic confusion in surveys, as it is possible that an anadromous species of Brown trout *(S. tuttra*) could have been mistaken for the Black Sea salmon.

Figure IIII. Total number of unique species observed in all surveys and locations per year



43. AGL has implemented mitigation measures, which were included in the LFMS and in updates to the O-BAP. The fish pass installed in the Chirukhitskali weir has proven to be working. Additionally, no fish mortality has been registered downstream of the dams. Nonetheless, the LFMS also included restocking of the Brown trout (*S. tutta*) upstream from these dams, in compliance with the Ministry of Environment and Natural Resources Protection requirement to restock 10,000 individuals per year. To comply, and to minimize potential for harm, native trout species were sourced from a Ministry-licensed fish farm. The latest restocking, in March 2025, completed four consecutive years of restocking efforts upstream of the Skhalta dam and Chirukhitskali weir.

44. IFC considers that AGL's survey methods for various species was appropriate. The ten-year monitoring program has been overseen by international consultants and by Georgian ichthyologists. Regarding specific species, Black Sea salmon have never been identified in the surveys, confirming due diligence results. Colchic khramulya (*Capoeta sieboldii*) and Colchic nase (*Chondrostoma colchicum*) were absent from surveys between 2014 and 2020, understandably leading CAO to suggest biodiversity loss; however, surveys from 2021-2024 have shown their reappearance and increase in abundance. The Caucasian goby (*Ponticola constructor*), although absent on some of the construction surveys, has also appeared in operational years. The Eurasian otter has been consistently present in the area, with surveys confirming their population has remained stable. In relation to the European eel, the most common survey method used is electrofishing, which is currently banned in Georgia, so as an alternative methodology, surveys have used throw nets (20-25 per survey) with net size of around 10mm (sufficient to catch enough species). With over 400 surveys conducted (totaling 8,000-10,000 throws), no evidence of the species' presence was found in the Project area.[16]

[16] Only two incidences of eel capture in the Adjaristsqali River have been reported in the last 25 years. Both cases were reported from near the village of Tsoniarisi, over 10km downstream from the Shuakhevi HPP.

45. IFC appreciates CAO's conclusion that IFC's ESDD adequately identified recreational fishing as an ecosystem service and proposed mitigation and offsetting measures consistent with PS6. Although the ESIA proposed fish restocking and the creation of designated recreational fishing areas to mitigate construction phase impacts, the ESIA had limitations regarding the collection of recreational fishing baseline data. IFC agrees that there were monitoring gaps on recreational fishing monitoring to assess impacts during construction. Although recreational fishing parameters such as catch rate and effort were not measured, biomass (total weight of the fish) was monitored; this variable serves a proxy for the health of the fish population. Biomass monitoring also shows an increasing trend, in line with other measures indicating recovery of the fish population.

46. Similarly, the ESIA, construction BAP, O-BAP, and LFMS addressed the impact of reduced flow on riparian trees. However, IFC acknowledges that no monitoring of riparian ecosystems was planned; this could have been included in the hydromorphological monitoring previewed in the LFMS. While not part of a formal monitoring program, the IESC visited the river near Makhalakidzeebi in November 2024, and observed both banks to be heavily tree-lined, with no visual evidence of riparian tree loss or decline in health.

47. AGL contracted a respected international consultant group to transition the BAP from the construction phase to the O-BAP, and to ensure the sufficiency of mitigation measures to meet the E&S compliance requirements of the Lender Group. The O-BAP has combined further assessment and analysis since the ESIA. Biodiversity monitoring is currently supervised by international consultants, working together with local Georgian and regional specialists on the ground.[17]

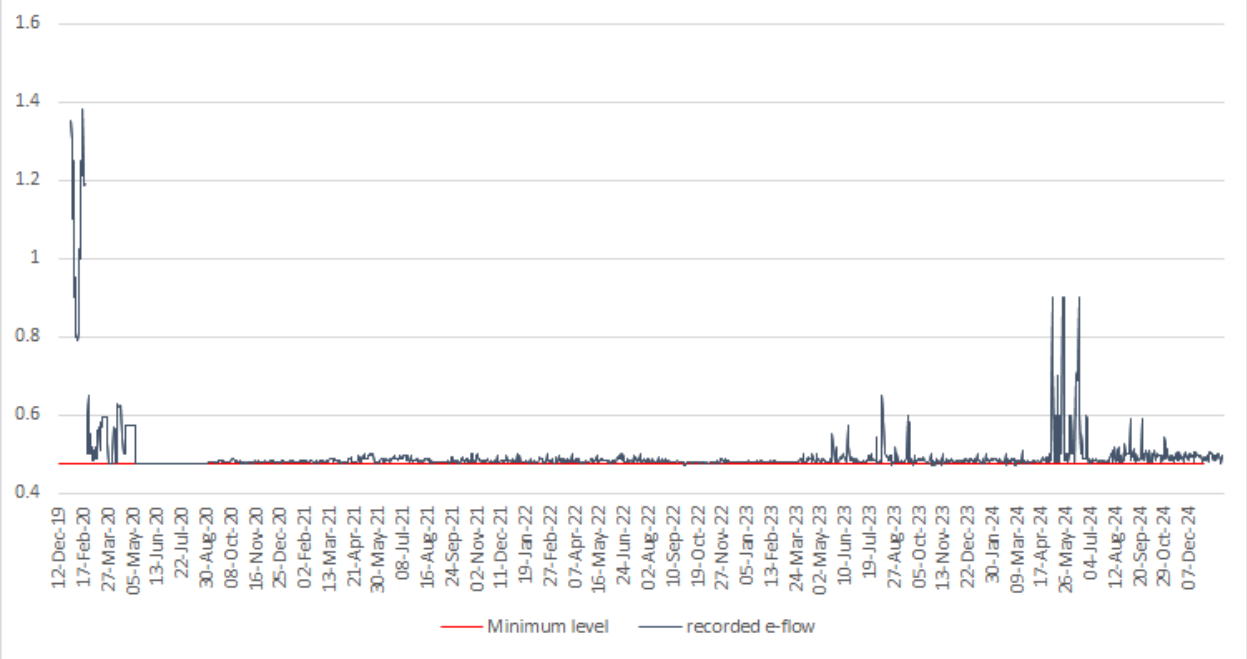
Environmental Flow

48. During the commissioning phase of the weir (December 2019), AGL engaged fluvial geomorphologists to observe all three downstream sections in their natural state prior to engagement of e-flow, and to observe the river flow for breaks in hydraulic connectivity for the three rivers. Consultants monitored the habitat evolution at 30 percent, 20 percent, and 10 percent of the mean annual flow during the period in which e-flow conditions were engaged. No break in hydrological connectivity was observed at any of the reviewed flow rates. Hydromorphological monitoring has been undertaken in the intervening years, and data indicates that hydrological connectivity has been maintained throughout Project construction and operations.

49. Monitoring of e-flows has been undertaken consistently since January 2020 (see Figure IV). AGL has contracted a consulting firm to monitor e-flow sufficiency (including connectivity and depth) on a semi-annual basis. Monitoring of sediment flushing, fish pass effectiveness, and aquatic biodiversity indicates that e-flow is sufficient. Minimum flow levels have been maintained or slightly exceeded during the operational period.

[17] Environmental Resources Management (ERM), based in Washington, DC, is the largest global sustainability consultancy. Blue Rivers Environmental Consultants (BREC), engaged for hydromorphological, fish pass, and sediment flushing monitoring, are based in Ukraine.

Figure IV. Environmental flow from the Chirukhitskali Weir, 2020-2024



50. IFC agrees that there is no evidence that the base flow considered the specific needs of key species; at that time (2013), the general practice of defining e-flow was still evolving (the IFC Good Practice Handbook on Environmental Flows for HPPs dates from 2018). The approach agreed at the time to define e-flows reflected the one adopted in other HPPs in Georgia. Nonetheless, the Project examined downstream flow changes from 2012 to 2016, including habitat mapping, flow measurements, fish surveys, and macroinvertebrate surveys. It recommended mitigation actions and an e-flow monitoring program, targeting flow releases, river hydromorphology, and fish pass monitoring at the Chirukhitskali weir, all of which have been implemented.

IFC Response to CAO Recommendations

51. IFC carefully considered CAO's Project-level recommendations on groundwater and biodiversity, and engaged closely with AGL in preparing IFC's response to CAO's recommendations. As described below, the complainants declined to engage with IFC on the topics of water or fish.

Groundwater

In line with the mitigation measures outlined in the project's ESIA and ESMP on providing an alternative water supply, IFC should work with the client to continue supporting the municipality's efforts to provide long-term reliable water supply to Makhalakidzeebi village and Rabati neighborhood of sufficient quantity and quality to meet their livelihood and domestic consumption needs. These additional efforts should be undertaken within a reasonable time. While system improvements are underway, CAO recommends that IFC work with its client to improve the ongoing alternative water supply provided to the complainants and ensure it is of sufficient quality and quantity to meet their domestic consumption needs. This activity should be categorized as a PS1 project mitigation or compensation measure conducted under IFC supervision. To this end, CAO recommends that IFC, as part of its supervision efforts, surveys the client's water provisioning activity to establish that it meets water quality standards and is sufficient to meet the needs of the community. If project area realities make it difficult to

ensure that complainants have access to sufficient and clean water, IFC should work with its client to explore other alternatives, such as providing support for relocation.

52. The proposed actions in IFC's MAP respond to the situation on the ground currently, and demonstrate the willingness of IFC and AGL to continue engagement, despite IFC's consideration that there is no likely material adverse harm linked to the Project that would meet the threshold of Harm as defined in the CAO policy.[18] The independent report commissioned by the Lenders Group in 2020 did not find a linkage between the tunneling works and spring water issues, and it is difficult to conclude that the Project affected the community's water supply during construction. There is also no indication of any residual impacts from Project activities on community water supply. Complainants were not interested in engaging with IFC regarding water supply issues and IFC notes that the current and planned municipal water supply systems already address the majority of CAO's recommendations.

53. Any groundwater impact from tunnel construction would have affected only the 22 Rabati households in the Project's catchment area. The spring water quality remained unaffected by the Project as there were no pollution sources from the tunnel activities. The tunnels were grouted in 2016-2017. In 2019, a year after the community members' complaint to CAO, the tunnels were lined to maintain their stability and prevent potential further ingress of groundwater into the tunnels, making any impacts on community water highly unlikely. AGL continues to monitor tunnel integrity and to evaluate tunnel maintenance procedures to ensure alignment with established international industry standards.

54. At present, there is a functional water supply system in place. During the construction phase, as part of its CSR program, AGL voluntarily undertook a water supply infrastructure project jointly with the Municipality. This water system continues to be operational, with ongoing maintenance agreed to be the responsibility of the Municipality. Observations made by IFC during site visits in 2023 and 2025 confirmed that the system provides sufficient water, and no water-related grievance has been received since 2017. IFC acknowledges that the current system would benefit from enhanced maintenance by the Municipality, which AGL has agreed to formally request.

55. The Municipality has commissioned a permanent water supply project, aimed at improving water quantity, continuity, and quality, for the Makhalakidzeebi village, including the Rabati households, by September 2025.[19] Water will be supplied from a new intake of spring water, 6 km from the villages, which met the evaluation criteria to reliably provide a sufficient amount of water across seasons. IFC understands the water will receive pretreatment before being distributed to households to achieve potable water standards. The water is intended for domestic use, while river water will continue to be the main source for irrigation.

[18] "Any material adverse environmental and social effect on people or the environment resulting directly or indirectly from a Project or Sub-Project. Harm may be actual or reasonably likely to occur in the future." CAO Policy, Glossary. https://www.cao-ombudsman.org/sites/default/files/documents/CAO%20Policy/ifc-miga-independent-accountability-mechanism-cao-policy.pdf

[19] The Municipality provided a letter to AGL in April 2025, stating that "the contract for the 'Gori-Paposhvili' drinking water project is ongoing (two years), according to the implementing company, the main pipe has been ordered and work will begin in the coming days, and according to the contract, the main and head works should be completed by September 30 of this year."

56. The construction and operation of the permanent water supply project will be fully financed by the Municipality, and residents will receive water for free. AGL will collaborate with the Municipality to identify measures required to support the new water supply project for the Makhalakidzeebi village and Rabati neighborhood. AGL's proficiency in water management, hydrology, and engineering can provide valuable knowledge input into the design, implementation, and maintenance of water supply systems.

57. IFC notes that the EBRD MAP proposed no further action with respect to groundwater, but stated that water availability and use will continue to be monitored.[20] IFC similarly considers that mitigation measures are not required, but appreciates AGL's willingness to continue to engage on these issues, and to support the Municipality's efforts to provide a reliable water supply to its residents.

58. IFC recognizes the complainants' desire to relocate, due primarily to the inherent landslide risks in the area. However, from a PS perspective, relocation is only required when project-related impacts adversely affect local communities. With a functional water supply in place, completion of a permanent water supply system to enhance both water quantity and quality anticipated within months, and absent any other confirmed and continuing adverse Project impacts, IFC does not consider relocation to be AGL's responsibility.

59. The relocation of Makhalakidzeebi's residents due to landslide risks remains the responsibility of public-sector authorities, and there is an active "Accommodation of eco-migrant families in a safe environment" program underway. Under Georgian legislation, an "eco-migrant" is defined as a person affected by natural disasters and subject to internal resettlement. As of November 2024, 21 of the 22 households in the Rabati neighborhood have registered for the eco-migrant program, which provides eligible families up to 50,000 GEL (US$18,248 equivalent) for new housing in a safe environment. Eligibility evaluation is underway.

Biodiversity
Given the shortcomings found in the biodiversity baseline and monitoring, CAO recommends that in line with the World Bank Group's Good Practice Handbook,260 IFC should work with its client to:

- *Update the fish baseline to identify the fish species diversity within the adjusted study area of the Shuakhevi scheme, across seasons and in line with good international practice. Particular attention should be given to endemic, endangered, and vulnerable species which depend on aquatic ecosystems, including, but not limited to, fish species.*
- *Based on the results of the updated baseline, identify the habitat needs for individual species, and revisit the assessment of the project's environmental flows. This should include an updated ecological flow analysis, using a high-resolution methodology that assesses a range of environmental flow scenarios to evaluate the impact on the identified fish species and other species dependent on the freshwater habitat. This re-assessment would more effectively inform the identification of measures to adequately mitigate or offset adverse residual impacts to biodiversity, and demonstrate the achievement of no net loss.*

[20] Management Action 7. EBRD MAP. https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/ipam/ipam-case-registry/2019/2019-01-shuakhevi-hpp-request--2/2019-01-Management-Action-Plan-ENG-19-Oct-2022.pdf

- *IFC should work with the client to engage internationally recognized experts to review the ecological flow analysis, update the BAP, to ensure that the mitigation and/or offset measures taken are adequate to ensure no net loss of biodiversity.*

- *Lastly, in order to adequately assess project impacts on aquatic biodiversity in affected rivers and reservoirs, CAO recommends that IFC request AGL to extend the monitoring of fish populations and vulnerable species for the life of the project. The international experts should also review the monitoring program to ensure that it adequately identifies and flags any significant changes in species diversity and populations. This should inform the periodic update of mitigation and/or offset measures.*

60. IFC considers that it is not possible to update the baseline of an existing project, as by definition, a baseline is collected before the project starts. IFC also believes the pre-investment fish sampling was sufficient, encompassing the entirely of the final Area of Influence. IFC acknowledges some minor gaps in biodiversity monitoring; however, available data indicates that there is unlikely to be material adverse harm linked to the Project that would meet the threshold of Harm as defined in the CAO Policy. To further support this conclusion, IFC notes that, in considering the EBRD complaint, the Compliance Review Expert concluded that AGL ultimately achieved substantial compliance with the BAP.

61. EBRD's MAP commits EBRD and the LTA to ongoing monitoring of the effectiveness of the O-BAP, and states that future evolutions of the O-BAP will be disclosed by AGL.[21] IFC is similarly focused on the Project's operational phase.

62. In addition to the pre-investment baseline, data from over 10 years of operational phase monitoring indicates that connectivity is being maintained, and fish abundance and diversity have recovered from a temporary reduction during construction, confirming progress toward no net loss. The re-establishment of species abundance and richness also demonstrates operational e-flow sufficiency. Consequently, a high-resolution reassessment, which is not a PS requirement, is unlikely to provide valuable conclusions, address the deficiencies identified by CAO or result in a different outcome.

63. However, to identify trends attributable to Project impacts versus natural variation or external non-Project stressors, within the Project area, AGL is committed to developing a statistical trend analysis for the operational phase. This analysis will be based on monitoring data of key species that are priorities for the communities and for conservation purposes, including all endemic, endangered, and vulnerable species.

64. In addition, AGL has agreed to engage international experts or consultants to develop an e-flow suitability review. This analysis will utilize hydromorphological and biological data collected during the operational phase. For each conservation priority species, e-flow sufficiency will be determined and, where necessary, mitigation measures will be identified, as needed.

65. While monitoring indicates that flow releases are in accordance with the e-flow regime and that habitat diversity and continuity is being maintained, the planned statistical trend analysis and e-flow assessment report can be adapted to analyze flow, fish, and hydromorphological data in an

[21] Management Action 8. EBRD MAP. https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/ipam/ipam-case-registry/2019/2019-01-shuakhevi-hpp-request--2/2019-01-Management-Action-Plan-ENG-19-Oct-2022.pdf

integrated manner. Operational phase monitoring will contribute to ongoing adaptive management. Monitoring throughout the Project's life cycle is a PS6 requirement and will be addressed under IFC's E&S supervision actions.

V. CONSULTATIONS WITH COMPLAINANTS AND THE COMPANY

66. The CAO Policy provides for IFC to consult with complainants and the company in preparing a MAP. This section describes IFC efforts to consult with complainants; the ongoing communication with AGL and the company's key views; and engagement with CAO regarding the MAP.

Consultation with Complainants

67. The IFC Project team engaged previously with community members as part of E&S supervision, and is familiar with the concerns of the residents of Makhalakidzeebi, particularly regarding landslide risks. For the preparation of the MAP, while IFC was committed to consulting with complainants, the complainants communicated to CAO that they were not amenable to a handover call from CAO to IFC and were not interested in discussing water provision or fish with IFC. They were only willing to discuss the issue of landslide risk; however this topic is not included within the scope of CAO's investigation or report and therefore is not within the scope of the MAP.

68. IFC attempted to contact the lead complainant to express willingness to engage on the development of MAP actions related to water and biodiversity, to enable inclusion of their inputs on the proposed actions. IFC also worked with the country office to prepare alternative platforms for engagement should they wish to speak with IFC, even late in the MAP preparation. IFC did not receive any response from the complainants and respects their wish not to engage on these topics. IFC remains willing to engage with them in the future as part of regular Project supervision, should they choose to do so.

Consultation with AGL

69. IFC has consistently collaborated with AGL to discuss and agree on each action included in the MAP. AGL maintains that the Project has not affected water supply, and therefore, water access is the Municipality's responsibility. AGL further notes that there is a water supply project being undertaken by the Municipality. Nonetheless, AGL is willing to engage with the Municipality to support its efforts. AGL also committed to undertaking a statistical trend analysis and e-flow suitability review, based on five years of monitoring data, to assess if additional measures are needed with respect to biodiversity.

Engagement with CAO

70. Prior to submission of this report, IFC and MIGA engaged with CAO on the proposed responses to CAO's recommendations. IFC answered detailed technical questions on the proposed MAP and incorporated suggested changes in this report and the MAP. IFC welcomes the opportunity for constructive engagement and appreciates CAO's focus on the positive outcomes on the ground.

VI. MANAGEMENT ACTION PLAN (MAP)

71. The MAP presented in Annex A reflects the actions and limitations described in the section above. It presents actions that have been agreed upon with AGL. The level of detail presented below is commensurate with the timelines established by the CAO Policy for IFC to respond to a CAO investigation.

VII. CONCLUSION

72. IFC and MIGA appreciate CAO's constructive engagement throughout the complaint-handling process and welcome the opportunity to respond to CAO's review and recommendations. While there is always space to learn and improve, including in this AGL Project, IFC does not believe that the threshold of Harm, as defined by the CAO Policy, has been met in this case. IFC considers that there were no adverse material E&S impacts on people or the environment (whether actual or reasonably likely to occur in future), which directly or indirectly resulted from the Project. However, IFC has engaged with AGL on these topics, and AGL has agreed to actions in line with the spirit of CAO's recommendations, with a shared focus on outcomes of water provision and no net loss.

73. As confirmed by the LTA independent study, there was no evidence linking the Project to adverse impacts on community water supply. While IFC acknowledges supervision shortcomings, AGL implemented corrective measures, including tunnel grouting, lining, and integrity monitoring. AGL has not received any recent water-related grievances, and IFC confirmed the availability and access to abundant water through site visits.

74. As the Project is not affecting water resources, IFC and AGL contend that water provision remains the responsibility of the Municipality, and recognize that the Municipality has already commissioned development of a permanent water supply system. This initiative aims to improve water quality and consistent access, independent of seasonal fluctuations. AGL is open to collaborate with the Municipality on any actions that may be needed for this purpose.

75. IFC considers that pre-investment biodiversity fish sampling was sufficient, with the baseline for fish and conservation species populations covering the entire Project Area of Influence. Although temporary impacts were evident during the construction phase, various mitigation measures have been implemented and proven to be working. Affected populations recovered during the operational phase, and monitoring data show an increasing trend in abundance and richness, confirming progress toward no net loss and sufficient e-flow levels for connectivity. AGL has agreed to develop a statistical trend analysis and an e-flow suitability review to further determine if additional mitigations are required, which may subsequently be included in the O-BAP.

76. IFC recognizes that landslide concerns remain the primary focus of the complainants, despite not being a Project impact, and welcomes the national eco-migrant program to address this issue. IFC respects the complainants' preference not to discuss water or fish with IFC as part of

the preparation of the MAP. IFC will continue with E&S supervision activities, and remains open to further engagement with communities during ongoing supervision, should they desire.

ANNEX A. MANAGEMENT ACTION PLAN

CAO Project Level Recommendation	Action	Deliverable	Timeframe
Groundwater			
In line with the mitigation measures outlined in the project's ESIA and ESMP on providing an alternative water supply, IFC should work with the client to continue supporting the municipality's efforts to provide long-term reliable water supply to Makhalakidzeebi village and Rabati neighborhood of sufficient quantity and quality to meet their livelihood and domestic consumption needs. These additional efforts should be undertaken within a reasonable time. While system improvements are underway, CAO recommends that IFC work with its client to improve the ongoing alternative water supply provided to the complainants and ensure it is of sufficient quality and quantity to meet their domestic consumption needs. This activity should be categorized as a PS1 project mitigation or compensation measure conducted under IFC supervision. To this end, CAO recommends that IFC, as part of its supervision efforts, surveys the client's water provisioning activity to establish that it meets water quality standards and is sufficient to meet the needs of the community. If project area realities make it difficult to ensure that complainants have access to sufficient and clean water, IFC should work with its client to explore other alternatives, such as providing support for relocation.	As a voluntary action, AGL will continue to promote a long-term solution by the Shuakhevi Municipality, specifically to:		
	• Consult with the Municipality to understand if support is needed from AGL to implement the municipal water supply project in Rabati.	Minutes of meetings reflecting the conclusion on the need for support and proposed scope, if applicable.	July 31, 2025
	• Formally request the Municipality to ensure the Rabati neighborhood is included as a priority in the Makhalakidzeebi long-term supply system.	Official letter from AGL to the Municipality with the request.	June 30, 2025
	• Formally request the Municipality to do maintenance on the current water supply system as a short-term improvement action.	Official letter from AGL to the Municipality with the request.	June 30, 2025
Biodiversity			
Given the shortcomings found in the biodiversity baseline and monitoring, CAO recommends that in line with the World Bank Group's Good Practice Handbook, IFC should work with its client to: • Update the fish baseline to identify the fish species diversity within the adjusted study area of the Shuakhevi scheme, across seasons and in line with good international practice. Particular attention should be given to endemic, endangered, and vulnerable species which depend on aquatic ecosystems, including, but not limited to, fish species. • Based on the results of the updated baseline, identify the habitat needs for individual species, and revisit the assessment of the project's environmental flows. This should include an updated ecological flow analysis, using a high-resolution methodology that assesses a range of environmental flow scenarios to evaluate the impact on the identified fish species and other species dependent on the freshwater habitat. This re-assessment would more effectively inform the identification of measures to adequately mitigate or	AGL to develop a statistical trend analysis and e-flow suitability analysis with international experts or consultants, with the intention of achieving no net loss of biodiversity where feasible. Based on the results, determine mitigations and update the O-BAP if needed.	Statistical trend analysis of operational phase. E-flow suitability analysis report.	Statistical trend analysis Feb. 28, 2026
		Updated sections on O-BAP to include mitigation actions if needed.	E-flow suitability analysis report June 30, 2026

CAO Project Level Recommendation	Action	Deliverable	Timeframe
offset adverse residual impacts to biodiversity, and demonstrate the achievement of no net loss. • IFC should work with the client to engage internationally recognized experts to review the ecological flow analysis, update the BAP, to ensure that the mitigation and/or offset measures taken are adequate to ensure no net loss of biodiversity. • Lastly, in order to adequately assess project impacts on aquatic biodiversity in affected rivers and reservoirs, CAO recommends that IFC request AGL to extend the monitoring of fish populations and vulnerable species for the life of the project. The international experts should also review the monitoring program to ensure that it adequately identifies and flags any significant changes in species diversity and populations. This should inform the periodic update of mitigation and/or offset measures.			

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