

## **Executive Summary**

### **Corruption and Financial Mismanagement in the Municipal Solid Waste Management System of Tbilisi**

Since the privatization of the Tbilisi municipal solid waste management system small private waste-hauling companies have enjoyed a monopoly. Furthermore, issues such as corruption, organized crime and negligence of the public health have accompanied the management system throughout the last decade.

Needless to say, under such circumstances the “garbage business” became closed, non-competitive and monopolized, which has resulted in making the system deplorable while providing very poor service to the public. At the same time, it disregards public health by mixing food waste with hazardous waste and dumping it in open landfills close to city.

The main objective of this research was to identify the parts of the Tbilisi MSWM system that are corrupt and/or vulnerable to corruption and financial mismanagement. In addition, the factors causing corruption are laid out and at the end of the paper, recommendations for improvement of the system are provided.

At the same time, to make recommendations more credible, there is a comparative chapter included, discussing waste management related problems in New York City alongside those of Tbilisi, drawing conclusions from the experience of NYC which can be viewed as “lessons learned” for Tbilisi officials in the process of a MSWM system reformation.

Research has been done by applying the following methodologies: a combination of qualitative (reports, legislation/legal acts, official letters, etc.) methods including semi-structured interviews with city officials, administrative representatives in private transport companies and those individuals working at the waste transfer stations and landfills, and quantitative (budget expenditures, statistics, etc.) methods, including observation during field work. A comparative analysis has also been carried out with the mafia garbage monopoly in New York City.

Having made a case-study centered on the MSWM system within the frame of Tbilisi city only, the following discrepancies in the system have been found. First, the MSWM system has been divided up in an artificial manner, whereas, the division between the two governmental bodies was not necessary, and this has had two implications. It made it feasible and much easier to conduct financial mismanagement and corrupt activities. Moreover, it loosened the state monitoring/control over the efficiency and the quality of work done by the actors involved in the management system, and it's compliance with the requirements of the contract. Second, the system is not profitable and is unattractive to foreign companies due to the fact that legislation is incomplete and the mechanism for collecting payments from both public and private entities does not function properly. Third, the status quo of this system has been preserved on behalf of those actors involved in the system, which during last decade has led to a system monopoly by private waste-transport companies. The monopolization of this system was aided by a series of false open tenders that were announced and preceded by local government officials alongside private waste-transport companies. The owners of these companies are individuals, who, before the Soviet break-down, worked in the state-owned municipality waste management system and many of these individuals managed to privatize state-owned entities in late 90s and started their own “business” that today is an bottomless pit for the local state budget and the effectiveness of

this business, supported by state funding, has no oversight or is controlled very poorly. Regardless, considering the technical/personnel base, the quality of work and performance were found satisfactory already several years in a row.

The system of waste management consists of three main actors: the local executive bodies of Georgian Government, private limited liability companies (waste transporters) and the citizens of and businesses of Tbilisi that are the main producers of waste. The population, businesses and community are the ones that suffer from the poor operation of the management system. Waste transport and land filling is subsidized for the population of Tbilisi, whereas, for the business sector there is no set tariff. Thus, the weaknesses of the WMS set a standard for wasting the state budget and employing a tariff policy for waste transport/disposal which incurs massive costs for the local government.

The factors contributing to the existing corruption in the WMS range from legislation, information databases, the state monitoring system for the functioning of management, forging of open tenders by which private companies gain contracts for transport services, the concentration of a number of activities only in the hands of several companies that have been present in the service for many years regardless of their failure to adhere to the contract requirements, fraudulent lists of payers for waste transport services, and a dysfunctional system of tax collection. Below I will try to tackle each of the factors separately.

### **SWM System : Actors, and Consisting parts**

Local government representatives, called Gamgeoba (there are 5 Gamgeoba in Tbilisi), and Tbilisi Improvements Service under Tbilisi's Mayor's Office share the management and control of the efficiency and quality of work done by private transport companies. The Gamgeoba is responsible for looking after waste collection and transportation, whereas, Tbilisi's Improvements Service looks after landfills and landfill management. The split of the SWM system of Tbilisi between the two branches of City Government was artificial and unnecessary and led to a weakening of the control mechanisms over the WMS management, thus making it vulnerable to corruption and illegal dealings.

For example, the leaders of the Gamgeoba made a central to limited liability company that should have carried out waste transport activities in accordance with the contract and the contract itself was based on the open tender announced and proceeded by the Gamgeoba administration. According to the Georgian Law on State Procurement the tender commission reviewing applications must consist of the head of the organization announcing the tender, his/her deputy heads, and external experts *can be invited* as well, although this is not required. Thus, the closed circle of the tender announcement, the tender document revision and the contract granted to the successful companies was non-transparent and unfair. It was based on personal benefit and favors given in return for contracts and/or financial benefits between the representatives of the Gamgeoba and private waste-transport companies. According to official documents obtained from the State Procurement Agency, it became clear that speculations on the system monopolization by private waste-transportation systems with the aid of local officials were proved justified. During last five years, from 2000 to 2005, on the territories of all 5 city districts the same companies were providing service, regardless of the poor quality and breaches of the contract provisions by those companies. Similar evidence was provided by going through the tender documentation for the period of the last 3 years (2002-2005).

Thus, fictitious tenders were not only a hindrance against the creation of a competitive climate within the SWM system in Tbilisi that would inevitably lead to the improvement of the quality of service, though, it might have well resulted in an increase in the service tariff, but also allowed the forged tenders to misappropriate state budget finances. Different types of municipal services provided by private waste-transport companies included the sweeping of streets, washing of streets, the catching of stray domestic animals, and looking after architectural monuments, etc. Thus, whereas, services provided by private companies were not fully meeting the schedule for providing services and for provisions given in the contracts, both parties (local government bodies and private companies) were aware of wrongdoings and nothing was done to change the situation. Very often streets are not swept, washed, and waste containers are not emptied on time. Ironically, in the contract there are two categories of streets to be swept on a daily basis and the tariff for both are different. The first category costs 0.065 GEL per month, whereas, the second 0.043 GEL per month, and the minimum territory that an employee from the service provider company must have sweep from the category is 2000 m<sup>2</sup> and from the second category is 3000 m<sup>2</sup>, though it is physically infeasible for one person to conduct such a large amount of work. This fact portrays just one example of the deliberate embezzlement from the local state budget.

Apart from this, there are no indicators set by the Tbilisi Mayor's office, according to which the streets of Tbilisi should be categorized. So, it is no wonder that most of the time contracts show the sweeping territories falling into the first category rather than in the second and besides, none of the streets listed are clean enough to provide evidence that they are often swept. In effect, by not fulfilling the stipulations of the contract, service providers were saving money, whereas, local officials were unconcerned, since they received their share of the profit from company representatives. All these activities listed above, except municipal waste collection-transportation, are fully financed by the state budget.

However, waste-transportation and transportation in general is altogether another story. This system is only partially subsidized by the state. To collect and transport municipal waste the local government had to cover around 0.27 GEL per month for each individual. For those individuals who are ascribed to the category of vulnerable, their payment is fully covered by the state and equals 0.67 GEL per month. Thus, in the case where the classification of the citizens of Tbilisi and especially the existence of accurate classification of the vulnerable is far from realistic, there is a greater opportunity for the forging of lists which classify the population for the purpose of obtaining increased funding for municipal waste collection/transportation activities by private service providers than in fact should have been had the civil registry been properly functioning in Tbilisi.

### **Garbage transfer stations**

Another circle within the corrupt chain of the MSWM is the Garbage Transfer Station (s). There are three GTSs in Tbilisi out of which two are private and one, Ponichala GTS, is state-owned. The creation of the Ponichala GTS was spontaneous and derived from the fact that one out of two open landfills that received municipal waste from Tbilisi were to be closed in 2004 due to the expiration of its working period. Thus, the Council of Tbilisi passed a resolution creating a garbage transfer station on the site of a former Soviet waste handling factory which is currently dismantled and in a poor state.

Money for the GTS operations was given to the Tbilisi City Improvements Service through the Mayor's Office. This local government body now announcing open tenders for and making contracts with a private limited liability company that will operate the station. However, no

calculation has been made as to how this new initiative would affect the waste transportation tariff. Since 2001 the waste-transportation tariff has been ratified by the City Council. This fact that leads us suspect that after opening the GTS and financing the transportation activities from the station to the landfills is in effect a double-financing of the same activities i.e. waste-transportation from the city budget. In 2004 the Tbilisi City Improvements Service was given 245,000 GEL to transport collected and transferred MSW from the Ponichala GTS to the Iagluja landfill. These well-founded suspicions of a double-financing demands further research of documents and a thorough examination of the activities and the amount of money spent on them.

### **Landfills and “pig farms”**

Tbilisi Municipal waste after going through garbage transfer stations are transported either to the Gldani II landfill or to Iagluja landfill. Having visited both landfills, it became obvious that the sanitary norms of landfill management are very poor, waste compression to stop the natural burning of the dumped waste is very poor, thus a visitor of the landfill can notice the smoke from a very long way off. Landfills are not enclosed by a fence and often are over-crowded by those searching for plastic bottles or scrap metal, which is not allowed. Collected plastic bottles are often brought by these collectors to the stations of soft-drink producers and are re-used which puts the health of consumers in danger. At the same time, there have been cases when these indigent bottle collectors have died on the landfill when scavenging, because the piles of garbage often fall into the valley adjacent to the landfill (in this case of Gldani II landfill).

Open landfills have become notorious due to the so called “pig farms”. Close to the landfill Gldani II there turned out to be a number of private pig farms (according to our anonymous source, there might be around 4,000 pigs in those farms), the owners of which pay for each of their pigs to be let into the landfill at night to eat the food leftovers brought from Tbilisi restaurants. These leftovers are in fact are mixed with all sorts of possible waste since there is no waste-separation system operating in the city yet. According to obtained information approximately 70% of pork in Tbilisi is provided by meat from those farms. The current administration of the Gldani II landfill is trying hard to prevent this from happening on their territory. However, having talked to their administration, it seems almost impossible for them to succeed without the government’s support. To finally manage to dislodge this deeply rooted practice of raising pigs on these leftovers (which according to our rough calculations is at least 40 times cheaper to feed one pig per month), structural steps must be implemented by the local government of Tbilisi along with the relevant Ministries and governmental institutions.

### **Legislation**

Currently there are no laws neither on municipal solid waste nor on waste in general. There are only those legal acts adopted by the Tbilisi City Council which partly cover some aspects of waste management, such as landfills and the operation of landfills, and the collection and transportation of collected waste. However, there is no provision in any of those acts that would allow for such activities in garbage management such as garbage separation, re-use and recycling. Hence, even the legal acts are incomplete and were issued as a quick fix and lack the long-term needs underlying their existence in the first place.

Thus, the existing legal vacuum creates more space for illegal activities in the system and confusion among actors when it comes to division of responsibilities and obligations and administrative control. For example, construction garbage is totally falls out of the scope of those legal acts and much construction waste ends up in the streets thereby creating illegal

landfills. Apart from that, till this day there is still neither a waste management strategy nor an action plan.

### **Information database**

The absence of accurate information on the volume and the consistence of municipal solid waste produced annually in Tbilisi complicate the situation preventing management to improve it and to avoid mismanagement and overspending of the financial resources of the city budget. Presently, there is no information on the volume of MSW produced in the city and the dates provided by different institutions of the city differ markedly. For example, the amount of annually collected and transported waste (or even monthly) does not correspond to the amount of waste brought into a landfill. To add to the confusion, a large number of illegal landfills spread all over the city is also contributing to this problem.

### **Who is monopolizing the system?**

As has already been mentioned above, the MSWM system has been monopolized by contracted waste transport companies (there are 8 waste-transport companies, six of which are private). Because the system was divided between two governmental bodies and consequently the monitoring mechanism for the work was very weak, in addition to an incomplete legal system and the absence of a rational administration using a system of sanctions and penalties, the MSWM system greatly added to the existing corruption. The vicious circle of corrupt officials and private company owners ready to pay to win the open tenders for the waste-transportation services for the local municipalities are used to getting their way. And, by being loyal and generous to their patrons the same private companies continued to win tenders for the same part of Tbilisi many years in a row, regardless of the poor quality of work provided and the poor technical equipment that the companies uses to carry out its work. Thus, reforms in this direction are urgently needed to open up the sector to more companies national and/or international that will lead to an improvement in quality and an increase in competition within the sector.

### **Conclusions**

Since the privatization of the municipal waste management system, the system has become monopolized by a small group of private waste-transport companies, which maintain their contracts with local governments regardless of the the poor quality of service provided and the mismanagement of the state-budget finances. Thus the tenders conducted by the local government representatives for the purchase of the service of waste transportation were fictitious and fraudulent.

Consequently, the solid waste management system of Tbilisi is an unattractive sector for other investors (domestic or foreign) due to the nature of the companies that currently control the sector. Competitors face intimidation and possible violence if they attempt to enter the market.

The system of waste management was purposefully divided into two main parts and put under the supervision/control of the local government's two governmental bodies, the Gamgeoba and the Mayor Improvements Service. This fact undermined the city's capacity to monitor the financial management and effectiveness of the work provided with the state money.

Due to all the system discrepancies, the health risks caused by the poor management of the waste and non-separation of food leftovers and hazardous waste, in addition to the existing practice of dumping all the collected waste on the same, poorly managed open landfills, are increasing to a dangerous level.

## **Recommendations**

Considering the discrepancies of the MSWM system, we have drawn the following recommendations for their further improvements:

- 1) New York City's experience shows that it would be better to use a system of SWM instead of concentrating on law-breakers and to implement systematized set of reforms that would be in compliance with EU decrees on waste management. This is because, effective enforcement mechanisms are more important than legal actions against individual offenders.
- 2) Laws on waste must be elaborated, including a Waste Management Strategy and Action Plan. A new law would also touch the issues of the disposal industry, waste separation, recycling, re-using, etc. .
- 3) The governmental body that regulates all issues related with city waste management should be unified and this entity should coordinate all work related with the MSWM. (This initiative would reduce the feasibility of corrupt deals between local officials and heads of the private waste-transport companies in such a manner that the monopolized circle will be broken and healthy competition would emerge in the system leading to service improvements for consumers).
- 4) Tenders shall be announced by the this single governmental body and should be transparent by inviting external experts to attend the tender selection committee meeting. At the same time, the Law on State Procurement should be modified so as to make the invitation of external experts compulsory instead of being voluntarily as is the case today.
- 5) This governmental body should be the institution that carries out monitoring of the work related with MSWM done by private companies under the provisions of the contract. For this reason, this single body should create a mobile group of specialists who conduct field work on daily basis to monitor the efficiency of the work by private waste-transport companies.
- 6) The mechanism for the collection of payments for waste collection from both public and business entities has to be modified so that it becomes compulsory and sanctions shall be put into force to punish those entities and/or individuals who avoid payment. For this reason, in addition to a well-thought and planned mechanism for payment collection administrative legal acts must be adopted and implemented.
- 7) The technical assessment of the amount of waste produced in Tbilisi needs to be carried out to know exactly how much and what type of waste is produced annually in the city, so that this partially subsidized sector will not lead to financial mismanagement and a waste of the city budget.
- 8) The criteria for street classification must be elaborated upon and all streets within Tbilisi that are the object of cleaning by the private/state-owned transport companies must be correctly identified.
- 9) The pricing criteria for municipal services delivered need to be reformed
- 10) The tariff policy of municipal waste management needs to be changed.