



Technical Assistance Report

Project Number: 51132-001
Transaction Technical Assistance (TRTA)
September 2018

Georgia: Preparing the Water Supply and Sanitation Service Improvement Project

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 September 2018)

Currency unit	–	lari (GEL)
GEL1.00	=	\$0.3839
\$1.00	=	GEL2.60

ABBREVIATIONS

ADB	–	Asian Development Bank
CDIA	–	Cities Development Initiative for Asia
HLT	–	high-level technology
O&M	–	operation and maintenance
PPP	–	public-private partnership
TA	–	transaction technical assistance
USIIP	–	Urban Services Improvement Investment Program
UWSCG	–	United Water Supply Company of Georgia
WSS	–	water supply and sanitation

NOTES

- (i) The fiscal year (FY) of the Government of Georgia and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars.

Vice-President	Wencai Zhang, Operations 1
Director General	Werner Liepach, Central and West Asia Department (CWRD)
Sector Director	Yong Ye, Urban Development and Water Division, CWRD
Team leader	Heeyoung Hong, Principal Urban Development Specialist (Finance), CWRD
Team members	<p>Michael Beauchamp, Senior Social Development Specialist (Safeguards), CWRD</p> <p>Stephane Bessadi, Senior Water Utility Specialist, Sustainable Development and Climate Change Department (SDCC)</p> <p>Murman Katsitadze, Associate Procurement Officer, Georgia Resident Mission, CWRD</p> <p>Jung-Ho Kim, Urban Development Specialist, CWRD</p> <p>Duncan Lang, Environment Specialist, CWRD</p> <p>Massimo Petrone, Senior Urban Development Specialist, CWRD</p> <p>Mary Alice Rosero, Social Development Specialist (Gender and Development), CWRD</p> <p>Marcelle Anne Santos, Senior Operations Assistant, CWRD</p> <p>Seok Yong Yoon, Principal Public Management Specialist (e-governance), SDCC</p>
Peer reviewers	<p>Hubert Jenny, Principal Infrastructure Finance Specialist, East Asia Department</p> <p>Allison Woodruff, Senior Planning and Policy Specialist, Strategy, Policy and Review Department</p>

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 51132-001	
Project Name	Water Supply and Sanitation Service Improvement Project	Department/Division	CWRD/CWUW
Nature of Activity	Project Preparation	Executing Agency	Ministry of Regional Development and Infrastructure of Georgia
Modality	Regular		
Country	Georgia		
2. Sector		ADB Financing (\$ million)	
✓ Water and other urban infrastructure and services	Urban policy, institutional and capacity development		0.20
	Urban sewerage		0.10
	Urban water supply		0.45
	Total		0.75
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Urban environmental improvement		
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development Organizational development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas		
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Urban	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG6, SDG8, SDG12		
6. Risk Categorization		Low	
7. Safeguard Categorization		Safeguard Policy Statement does not apply	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.75	
Transaction technical assistance: Technical Assistance Special Fund		0.75	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.75	

I. THE ENSUING PROJECT

1. The Government of Georgia (government) has requested the Asian Development Bank (ADB) for a \$50 million regular loan from ADB's ordinary capital resources to support the proposed Water Supply and Sanitation Service Improvement Project. The project is aligned with the government strategies¹ and the priorities of the ADB *Country Partnership Strategy 2014–2018* for Georgia.² The project and this transaction technical assistance (TA) are listed in the *Country Operations Business Plan 2019–2021*,³ and consistent with the *Water Operational Plan 2011–2020*.⁴

2. The project complements the ongoing Urban Services Improvement Investment Program (USIIP).⁵ The project aims to minimize the operational inefficiencies and maximize asset utilization of the United Water Supply Company of Georgia (UWSCG) in the selected areas of Georgia. The project will assist UWSCG modernize its equipment and management information systems, restructure the organization, develop capacity and improve commercial orientation. Complementary institutional reforms will be supported to ensure greater accountability for quality service delivery including developing a water sector policy.

3. The envisaged project outputs are (i) facilitated high-level technology (HLT) solutions, and (ii) strengthened organization and institutions. These solutions will result in the following outcome: efficient, reliable and sustainable WSS service delivered in selected UWSCG service areas where the government has invested significant infrastructure.⁶ The project will be aligned with the following impact: health of residents of selected areas of Georgia improved.⁷

II. THE TECHNICAL ASSISTANCE

A. Justification

4. The proposed transaction technical assistance (TA) will help the government prepare the project. TA support is required to identify and facilitate HLT adoption, restructure UWSCG and build organizational and institutional capacity, and explore public-private partnership (PPP) opportunities. TA will further identify and prepare capital investments that require urgent and immediate works and are of high priority for operation and maintenance (O&M) and other essential works.

5. TA will assist the government to (i) define the project scope, design and costs; (ii) assess institutional, organizational and capacity development needs; (iii) conduct due diligence for the

¹ The Government of Georgia. 2016. *Freedom, Rapid Development, Prosperity-Government Program 2016-2020*. The "Four-Point Action Plan" is for infrastructure, business environment, human resources and good governance. Tbilisi. The Government of Georgia. 2014. *Social-economic Development Strategy of Georgia "Georgia 2020"*. Tbilisi. The government targets inclusive economic growth by innovation and technology, human capital development, and private sector participation.

² ADB. 2014. *Country Partnership Strategy: Georgia, 2014–2018*. Manila.

³ ADB. 2018. *Country Operations Business Plan: Georgia, 2019–2021*. Manila.

⁴ ADB. 2011. *Water Operational Plan 2011–2020*. Manila. Key areas are improving water supply and sanitation service sustainability, operation and maintenance, tariff policy and governance.

⁵ ADB. 2011. *Urban Services Improvement Investment Program*. Manila.

⁶ This will be determined based on criteria to be established and selected among the USIIP-supported areas. The government suggested to cluster cities at the regional level for reasonable economies of scale and functional distance.

⁷ Government of Georgia. 2011. *Water Supply and Sanitation Sector Development Plan 2011–2020*. Tbilisi.

technical, financial, economic, social safeguards and environmental viability of the proposed project; (iv) improve project readiness; and (v) support project implementation start up activities.

6. The Cities Development Initiative for Asia (CDIA) will continue to prepare the prefeasibility of candidate project areas of HLT and PPP with O&M focus.⁸ By building on the prefeasibility work of the CDIA consultants, the TA consultants will further: (i) examine multiple parameters including technology, capacity, resources, legal and other constraints and requirements; (ii) conduct value for money analysis; (iii) recommend most suitable and least cost options; (iv) prepare procurement packages and contracts; and, (v) ensure that the ensuing loan complies with ADB and government requirements.⁹

7. On-the-job trainings and workshops of UWSCG staff and key stakeholders will form an essential part of the TA activities. TA consultants will carry out active key stakeholder consultations on the technical acceptability and interoperability of HLT options, and social and political acceptability of the various PPP options. TA will also lay groundworks for driving changes in consumer behavior on metering, water usage and conservation, and sanitation.

B. Outputs and Activities

8. **Output 1: Feasibility study and due diligence completed.** TA will firm up the project scope and design with detailed cost estimates and financing plan. ADB CDIA team will supervise the consultants carrying out the prefeasibility study of the candidate project areas for HLT and PPP pilots and facilitate the collaboration with the ADB project team including TA consultants. TA will confirm and incorporate recommendations of the CDIA prefeasibility study. Key TA activities are as follows:

- (i) **HLT facilitation.** Technical due diligence will be conducted to minimize risks related to compatibility and adaptability with the existing infrastructure and systems. TA will (a) review current capacity, infrastructure and environment of the UWSCG central office and selected field offices (project areas); (b) present global experiences in water loss and energy management with the numerical results in nonrevenue water reduction, energy management and cost savings; (c) recommend multiple options with cost estimates using different HLT technology for O&M and asset management; (d) ensure interoperability and conformance of adopted technical and operational standards/procedures with national norms and international standards; and, (e) prepare specifications and quantities of goods, works and services for the UWSCG central office and project areas.
- (ii) **Organizational and institutional strengthening.** TA will assist the government (a) identify key organizational and institutional gaps and constraints impeding infrastructure delivery and cost recovery; (b) assess the UWSCG's management and business processes in investment approval, procurement, annual budgets and asset life cycle, financial and human resources management (recruitment, benefits, performance management); (c) recommend concrete measures and actions to improve the UWSCG's performance in the core business areas including commercial and customer services, and organizational effectiveness, i.e., organization structure, key business units, work flows, job description and performance management; (d) develop a comprehensive short- and medium-term capacity development plan to build

⁸ ADB. 2013. *Technical Assistance for Supporting the Cities Development Initiative for Asia*. Manila.

⁹ The TA will be posted in the business opportunities section of ADB's website in September 2018.

sustainable management and professional capacities; (e) identify potential bottlenecks for timely project implementation; and (f) recommend actions to strengthen the environment surrounding the UWSCG operations, including development of a sector policy and capacity strengthening of the Georgian National Energy and Water Supply Regulatory Commission. TA will develop training needs of staff to accomplish their duties and identify recommended scope for future skills development and training programs for the management, technical and operational staff. TA will consider cost-effective and gender-balanced options for sustainable learning and development to build up a steady stream of technical and skilled workforce in the sector and in UWSCG.

- (iii) **PPP pilot in selected project areas.** Private sector expertise will be solicited to more effectively acquire skills on-the-job, and deploy change management, processes and practices. TA will produce a comprehensive feasibility study to enable the government to determine PPP related project costs, affordability limits, risks and costs, and best value for money. The due diligence will ensure all preparatory grounds are covered for a successful PPP procurement and implementation. This includes (a) recommending most suitable PPP contractual arrangement with supporting analyses and justification; (b) preparing a performance-based PPP contract and establishing main contract and remuneration principles, including, but not be limited to, scope of responsibility, works, procurement and technology transfer, and definition of performance indicators; split of fixed and performance-based fee; and evaluation method and criteria; and (c) ensuring firm government buy-in and commitment that balances interests, incentives and risks of the parties involved. TA will conduct sufficient trainings, workshops, and roadshow(s) to enable the executing and implementing agencies manage, in particular, PPP related risks.

9. TA will assist the government in determining a suitable government support for PPP, e.g. grants/subsidies, loans, equity investments (or in the form of viability gap funding) and rationalizing such funding mechanism and fund-flow arrangement. Financial models for the project, UWSCG and PPP structuring will be developed and explicit and implicit financial costs to the government will be estimated. TA will also review past and potential government subsidy programs, fiscal arrangement and fiscal capacity of the country to sustain the investment program.

10. In addition, TA will identify and prepare capital investments that require urgent and immediate works and are of high priority for O&M and other essential works. The TA will prepare detailed engineering design and bidding documents as required.

11. **Output 2: Project readiness as per ADB standards complied.** TA will help to strengthen project management capacity of the executing and implementing agencies. TA will ensure that request for proposal for project management consulting firm, PPP contract, invitation for bid, request for proposal and bid documents are prepared and issued early for timely implementation.

12. TA will prepare key stakeholders to set clear expectations on HLT, PPP and organizational restructuring through on-site support and provision of trainings. Among others, TA will facilitate close coordination with concerned ministries/agencies to build consensus on PPP arrangement to preempt delays in PPP contract negotiations and procurement. Strong public relations and communication channel will be established with UWSCG, selected project areas, and key stakeholders for timely TA implementation and effective coordination and delivery of activities. For enhanced communications, TA will (i) prepare stakeholder communication matrix and strategy,

and (ii) conduct public awareness, consultation, and communication programs for behavioral change on metering, water conservation and sanitation.

C. Cost and Financing

13. TA is estimated to cost \$850,000, of which \$750,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-others). The government will provide counterpart support in the form of counterpart staff, office space, secretarial assistance, domestic transportation and other in-kind contributions, equivalent to \$100,000.

14. The government was informed that approval of the TA does not commit ADB to finance any ensuing project. The key expenditure items are listed in Appendix 1.

D. Implementation Arrangements

15. Ministry of Regional Development and Infrastructure, the executing agency (EA), will be responsible for the overall TA implementation and ADB's main counterpart in the overall TA implementation. UWSCG, the implementing agency, will assume responsibility for TA activities in coordination with the EA.

16. ADB will help facilitate implementation and supervision of the TA funded activities with a focus on consultant selection and supervision, and monitoring of their input quality. The implementation arrangements are summarized in Table 1.

Table 1: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	December 2018 – December 2019		
Executing agency	Ministry of Regional Development and Infrastructure		
Implementing agency	United Water Supply Company of Georgia		
Consultants	To be selected and engaged by ADB		
	QCBS 90:10	14.5 person-months international experts 22 person-months national experts	\$0.314 million
	Individual	14.5 person-months international experts 5 person-months national experts	\$0.270 million
Procurement	To be procured by consultants		
	Request for quotation	3	\$10,000
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	Goods purchased through the TA will be handed over to UWSCG in accordance with ADB's PAI 5.09.		

ADB = Asian Development Bank; QCBS = quality and cost-based selection; TA = transaction technical assistance
Source: Asian Development Bank estimate.

17. **Consulting services.** ADB will select and recruit a consulting firm and individual consultants in accordance with ADB Procurement Policy (2017, as amended from time to time) and the Staff Instructions-ADB Administered Consulting Services.¹⁰ Any goods purchased under the TA will be turned over to UWSCG at TA completion.

¹⁰ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

COST ESTIMATES AND FINANCING PLAN
(US\$'000)

Item	Total Cost
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (29 person-months)	518.0
ii. National consultants (27 person-months)	108.0
b. Out-of-pocket expenditures	
i. International and local travel	30.0
ii. Reports and communications	5.0
iii. Miscellaneous administration and support costs	5.0
2. Equipment ^b	10.0
3. Workshops, training, seminars, and conferences	25.0
4. Contingencies	49.0
Total	750.0

Note: The technical assistance (TA) is estimated to cost \$850,000 of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office space, where available, and other in-kind contributions. The value of government contribution is estimated to account for 12% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-others)

^b Laptop computers with software, multifunction printer, etc. will be procured to carry out the proposed consulting service assignments. They will be handed over to UWSCG when the TA is completed in accordance with ADB's PAI 5.09.

Source: Asian Development Bank estimate.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=51132-001-TARreport>

1. Terms of Reference for Consultants