ADB

Validation Report

Reference Number: PVR-352
Project Number: 43171
Loan Number: 2534(SF)
October 2014

Georgia: Municipal Services Development Project–Phase 2

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
EIRR	–	economic internal rate of return
MDF	–	Municipal Development Fund of Georgia
O&M	–	operation and maintenance
PCR	–	project completion report
PMIS	–	project management information system
WSS	–	water supply and sanitation

NOTE

In this report, “$” refers to US dollars.

Key Words

adb, asian development bank, georgia, infrastructure, municipal development fund, municipal services, project completion report, road, transport, validation.

PROJECT BASIC DATA

Project Number:	43171	**PCR Circulation Date:**	Jun 2013	
Loan Number:	2534 (SF)	**PCR Validation Date:**	Oct 2014	
Project Name:	**Municipal Services Development Project–Phase 2**			
Country:	Georgia		**Approved** ($ million)	**Actual**[a] ($ million)
Sector:	Multisector	**Total Project Costs:**	41.50	37.28
ADB Financing: ($ million)	**ADF:** 30.00	**Loan:** (SDR equivalent, million)	30.00 19.37	29.41 19.02
		Borrower:	11.50	7.87
	OCR: 0.00	**Beneficiaries:**	0.00	0.00
		Others:	0.00	0.00
Cofinancier:		**Total Cofinancing:**	0.00	0.00
Approval Date:	28 Jul 2009	**Effectiveness Date:**	19 Oct 2009	28 Oct 2009
Signing Date:	20 Aug 2009	**Closing Date:**	30 Jun 2014	30 Jun 2014
Project Officers:	A. P. Dauphin B. Goalou	**Location:** ADB headquarters ADB headquarters	**From:** Jul 2009 Jul 2011	**To:** Jul 2011 Jun 2014
Validators:	P. Choynowski, Consultant F. D. De Guzman, Senior Evaluation Officer, IED2	**Peer Reviewer:**	E. Kwon, Principal Evaluation Specialist, IED2	
Quality Reviewer:	B. Nguyen, Senior Evaluation Specialist, IED2	**Director:**	B. Finlayson, IED2	

ADB = Asian Development Bank; ADF = Asian Development Fund; IED2 = Independent Evaluation Department, Division 2; OCR = ordinary capital resources; PCR = project completion report; SDR = special drawing rights; SF = special fund.
[a] Estimated dollar equivalent. Actual amounts to be determined.

I. PROJECT DESCRIPTION

A. Rationale

1. At project preparation, the population density of Tbilisi, Georgia was about 7,900 inhabitants per square kilometer.[1] The road network was about 1,200 kilometers, concentrated in a single corridor because of the geography of the area. This had resulted in heavy congestion at peak traffic periods, along with poor air quality, excessive noise, loss of green areas, and degraded historical buildings and monuments. Increased private car ownership exacerbated these problems. About 80% of the source of air pollution was motor transport because of deficient traffic management and poorly maintained vehicles. In 2007, 4,000 accidents were reported representing a 63% increase in people injured and killed over 5 years.

2. Tbilisi's urban transport network comprised a two-line metro system, 123 bus routes, and 60 microbus routes operated by public and private companies. Microbuses conveyed the bulk of daily passengers with a 60% market share, while the balance was split between public buses and the metro system. Combined, these represent 400 million passenger-trips annually. Public transport services deteriorated since the country's independence because of poor road conditions, management deficiencies among operators, and insufficient investment in fleet renewal and infrastructure upgrades. In September 2006, the government banned minibuses

[1] ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Municipal Services Development Project–Phase 2*. Manila.

from main avenues to reduce road congestion, replacing them with larger, more efficient buses. The number of minibuses in operation fell from 4,500 to 2,000 but the number of the buses was still not sufficient to cope with existing demand.

3. The Asian Development Bank (ADB) approved in 2008 a loan for a Phase I project to finance the rehabilitation of water supply and sewerage, development of solid waste management systems, rehabilitation of municipal roads, and improvement of municipal transport.[2] However, several urgent urban transport subprojects were not included under Phase I as the resources were committed to other priority subprojects and municipalities. Thus, Phase 2, which this validation is reviewing, was conceived to cover these subprojects.

B. Expected Impact

4. The project's expected impact was to improve the urban environment and public health, and to invigorate local economies in urban areas by financing urban transport and traffic management interventions. A number of urban municipal subsector projects were also proposed for possible financing, including water supply, wastewater, and solid waste management, if funds were still available.

5. The impact indicators were (i) reduction in accidents and casualties by 10% compared to the baseline figure in 2007; (ii) reduced particles emission by 10% compared to the baseline in urban areas in 2007; (iii) improved access to businesses and communities by 10% in central areas compared to the baseline in 2008; and (iv) attractiveness and preservation of cultural heritage achieved, with a 20% increase in tourist nights compared to the baseline in 2008. These performance targets were envisaged to be attained by 2020.

C. Objectives or Expected Outcome

6. The expected outcome was to improve municipal infrastructure, service delivery, and achieve better living conditions in urban areas. The outcome indicators were (i) 1% increase in the number of upgraded pavements and roads, (ii) 5% improvement on the upgraded road arteries to reduce travel costs and time to major commercial and service centers, (iii) 1% increase in the number of legal parking places in historical centers, and (iv) citizens enabled to benefit from project construction. These were expected to be met by 2014.

D. Outputs

7. Outputs included (i) increased quality of service, (ii) wider network coverage, (iii) efficient and reliable urban services particularly for urban transport and traffic management, and (iv) improved capacity of municipalities and the Municipal Development Fund (MDF) of Georgia. The project was also aimed at rehabilitating and replacing deteriorated equipment and civil works, and improving municipal services management. To achieve these outputs and support longer-term devolution, the project was to focus on enhancing capacity within the MDF and municipal governments to (i) improve financial plans and manage projects, (ii) establish mechanisms for system repair and maintenance, and (iii) move the MDF toward a more sustainable municipal financing institution.

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[2] ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Georgia for the Municipal Services Development Project*. Manila.

8. The project was to include technical assistance to help participating municipal governments (i) identify their priorities; (ii) undertake planning and project feasibilities; and (iii) improve their charges, accounting, financial management, and reporting systems. Although the project provided technical assistance, no consultant was engaged for capacity development. Trained MDF staff visited participating municipal governments and provided on-the-job training in preparing subproject feasibility reports and detailed designs, and in construction supervision.

E. Provision of Inputs

9. The total cost of the project at approval was $41.50 million, including taxes and duties, physical and price contingencies, and financing charges of $7.41 million during implementation. A loan of $30 million from the Asian Development Fund facility was provided to the Government of Georgia. The government and municipal governments were to finance $11.50 million (27.72%) of the total cost. The actual project cost at completion was reduced to $36.28 million equivalent due to the cancelation of consulting services (paras. 8 and 12).

10. The government was to make the proceeds of the loan available to the MDF on a nonrefundable basis. Under the investment component, loan proceeds were to be passed on to eligible municipal governments through two financing windows, which are (i) a combination of loans and grants to financially stronger municipalities that had the capacity to borrow, and (ii) grants to the financially weaker municipal governments that had limited or no capacity to borrow. Sub-loans from the MDF to municipal governments were to be in local currency (lari) and repayable in the same currency over a period of up to 10 years, including a grace period of up to 1.5 years. The MDF was to charge an interest rate of 12% that included provisions for credit risk, cost of MDF administration and other operational expenses, and a margin for profit.

11. The project completion report (PCR)[3] indicated that the environmental aspect of the subprojects was assessed in accordance with the environmental assessment and review framework prepared at loan appraisal and the environmental management plan prepared by the MDF. Subprojects were carried out within the existing rights-of-way and did not involve any land acquisition and resettlement that would trigger the ADB guidelines and policy on involuntary resettlement. Also, there were no indigenous peoples that live in Georgia by ADB definition and, therefore, none were involved in any of the subprojects.

12. At appraisal, consulting services were estimated at a contract value of $4.44 million in the procurement plan, and were to cover legal and technical aspects of project implementation, operation and maintenance (O&M), planning, and funding (including feasibility studies, detailed designs, and construction supervision). However, only two local consultants were engaged for construction supervision of the two subprojects involving road and water supply network rehabilitation. These local consultants were recruited in February 2011 and July 2011. The consultant for road rehabilitation was recruited 5 months after the award of the works contract and performed construction supervision for 8 months. The PCR did not indicate the actual person-months of consulting services that were provided. There was no advisory technical assistance associated with this project.

13. The total ADB loan disbursement was $29.41 million. The PCR indicated that loan disbursements were made smoothly from December 2009 to March 2013. Funds were disbursed according to ADB standard payment procedures and there were no significant

[3] ADB. 2013. *Completion Report: Municipal Services Development Project–Phase 2 in Georgia*. Manila.

problems. The participating municipal governments transferred the funds from their resources to their MDF account without delays, in accordance with the investment financing agreements.

F. Implementation Arrangements

14. The MDF was to be the executing and implementing agency responsible for overall implementation, monitoring, and disbursement for the project. It had overall responsibility for project coordination and implementation, and acted as liaison with the relevant government agencies and ADB. The PCR indicated that no project management or implementation units were established. The same technical, financial, and administrative staff assigned to Phase I were responsible for the implementation of the project. The project was overseen by the MDF Supervisory Board, which was chaired by the President of Georgia, and consisted of representatives from the Ministry of Regional Development and Infrastructure and other ministries concerned.

15. All municipal governments were deemed eligible to participate in the project. Only subprojects that met the general eligibility criteria, including the ADB safeguards, were to be eligible for financing. Appraisal of investment projects by the MDF was to be undertaken based on quantitative and qualitative criteria to cover technical, financial, economic, environmental, social, and institutional aspects. Loan and project agreements contained 21 covenants. The project was to be implemented over 5 years from 2009 to end of 2013.

16. All procurements financed under the project were to follow the ADB *Procurement Guidelines*. The award of contracts was to be subject to the prior approval of ADB, except for small contracts under shopping and direct contracting procedures. Selecting and engaging consulting services was to be in accordance with the ADB *Guidelines on the Use of Consultants* and the procurement plan. Provisions of the ADB *Anticorruption Policy* were included in the loan regulations and bidding documents for the project. The *Anticorruption Policy* was explained and discussed with the government and MDF. The MDF was to ensure that a PMIS was maintained at the start of project implementation to monitor and evaluate technical performance and the social and economic benefits of the project at 6-month intervals. Review missions were to be undertaken twice a year for the first 2 years and once a year thereafter. ADB and the government were to undertake a midterm review of the project.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

17. The PCR rated the project *highly relevant*. Although there was no national sector development plan, strategy, urban policy, or long-term investment program for urban services when the project was prepared in 2009, the project was consistent with priorities in the State Strategy for Regional Development of Georgia for 2010–2017 that was later approved in June 2010. This strategy provided the principles for Georgia’s medium-term regional development policy, objectives, and tasks for regional development. The project was also consistent with the ADB interim operational strategy for 2008–2009 for Georgia. The interim operational strategy focused on enhancing sustainable economic growth (with cross-cutting themes of governance, regional cooperation, and environmental protection) by (i) improving service delivery in municipal infrastructure within the evolving decentralization process, (ii) reducing road transport constraints on economic activities, and (iii) upgrading and developing energy infrastructure.

18. Subproject formulation and design were undertaken through a community demand-driven approach. The subprojects were prepared based on a needs assessment, conducted through municipal government meetings with stakeholders, including local communities. The MDF also conducted public relations activities, including workshops to introduce the project to potential municipal governments and beneficiaries before and during project implementation to increase ownership by beneficiary communities. The project design was sound and relevant at appraisal and completion, and it adequately incorporated project objectives. No changes in project scope were made, although there was an increase in the number of subprojects. The project took a sector and programmatic approach by channeling funds for investments through the central government, the MDF, and ultimately to municipal governments. ADB intervention was coordinated with other international development partners, including the World Bank and European Bank for Reconstruction and Development, which also provided assistance for municipal infrastructure development.

19. This validation has a similar view with the PCR that the project was relevant at appraisal, during, and after implementation. The project's intended outputs and outcomes were consistent with the country's development priorities and strategy, beneficiary needs, and to the country and sector assistance strategies of ADB. The project's design and the use of a financial intermediation loan modality were appropriate and responsive to the identified development issues. The project was coordinated with other stakeholders, such as local governments, beneficiaries, and development partners. Subprojects were well formulated through stakeholder consultations and there were efforts to ensure beneficiary and government ownership. On these bases, this validation rates the project *highly relevant*.

B. Effectiveness in Achieving Project Outcome and Outputs

20. The PCR rated the project *highly effective* because it exceeded the outcome envisaged at appraisal, that is, more subprojects were financed from the loan proceeds than was expected. The project provided improved municipal roads in 27 municipalities (101.7 kilometers of urban roads were improved and upgraded), and provided reliable and safe water supply in four municipalities. More than 2% of urban roads in each participating municipality were improved and travel time was reduced by more than half. Increased bus services benefited local people.

21. Based on the February 2013 project performance monitoring system report, about 390,000 people benefited from better access via improved roads. Improved water supply and sanitation (WSS) benefited 72,000 people in four municipalities by providing a pressurized quality water supply for 12–24 hours a day. The water quality was tested and met the national standard for drinking water. In addition, 50,000 people in two municipalities benefited from the installation of garbage collection cans and collection trucks. The project improved the urban environment, local economy, and people's health in the participating municipalities. The project's design and monitoring framework verified that outcome and output targets were exceeded (PCR, Appendix 1). However, the PCR did not provide evidence, especially for the roads that were improved, that could show that a reduction in travel time was achieved. In particular, it was not clear whether there were baseline data and indicators that were actually measured. Also, evidence for improved capacity of municipal governments in project management was not clearly presented. In general, the PCR presented information on achieved outputs but there was a lack of discussion on the linkage between the outputs and outcome indicators. Given these observations, this validation rates the project *effective*.

C. Efficiency of Resource Use in Achieving Outcome and Outputs

22. The PCR rated the project *highly efficient*. An economic internal rate of return (EIRR) was reevaluated for 10 sample subprojects (two WSS and eight road improvement subprojects). For the WSS subprojects, benefits were based on (i) willingness-to-pay tariffs; (ii) expected values of safe drinking water; and (iii) time, labor, treatment, and storage cost savings. The estimated EIRRs for the water supply subprojects were 18.2% and 15.6%. The reestimated EIRRs for road improvement ranged from 26.9% to 41.2%. For road improvement subprojects, quantified benefits included vehicle operating cost savings and time savings. Operating and maintenance cost savings were not quantified because municipal government budgets do not disaggregate roads and specific road sections from the other budget appropriations.

23. Detailed data on economic costs and benefits of the two WSS subprojects were lacking in the PCR. Nonetheless, there was enough information to presume that the EIRRs were reasonable estimates. On the road improvement subprojects, road traffic was not based on empirical data but on "appraisal assumptions confirmed through discussions with contractors, local officials, and by beneficiary interviews and actual observation at site." (PCR, Appendix 9, para. 9). Average time saved on improved roads was assumed at 20 minutes per kilometer, which seems excessive and unrealistic. Therefore, it is likely that EIRRs for the road improvement component were substantially overestimated. However, it is also likely that subproject EIRRs were above the 12% hurdle rate.

24. The PCR did not discuss process efficiency. However, the PCR indicated that all phases of preparation and implementation went smoothly without major complications. This validation noted no delays in implementation and, therefore, may be considered process efficient.

25. The PCR indicated that a detailed financial reevaluation was not undertaken because financial viability was not a criterion for subproject selection (PCR, para. 29). Financial aspects of projects are issues related to sustainability—not efficiency—and should be discussed in the appropriate section of the PCR. The PCR also estimated benefit–cost ratios for the subprojects. Benefit–cost ratio is not a measure of economic efficiency according to ADB guidelines and should not be used in PCRs.

26. Given the lack of detail in the estimation of EIRRs in the PCR and the questionable assumptions regarding economic benefits of the road improvement subprojects, yet with the likelihood that EIRRs are above 12%, this validation rates the project *efficient*.

D. Preliminary Assessment of Sustainability

27. The PCR rated the project *less likely sustainable*. All the subproject facilities were functioning and were maintained satisfactorily as of March 2013. The O&M of municipal roads was contracted out to local contractors for maintenance and repair under the supervision of municipal governments. However, allocations in the municipal government budgets are insufficient and the capacity of municipal governments in road maintenance needs to be strengthened. A limited number of staff are responsible for infrastructure, with only 10 people on average, including 2–3 for municipal road maintenance. No municipal government has a database system to record asset inventories, which is essential for the planning, improvement, and O&M of municipal infrastructure and services.

28. The water supply systems were being satisfactorily operated by the United Water Supply Company of Georgia, delivering quality pressurized water to consumers for 12–24 hours a day.

Water quality is monitored in the company's laboratories at the local and regional level to ensure that it meets national standards. However, the capacity of the United Water Supply Company of Georgia needs strengthening to ensure that O&M is technically and financially sustainable, particularly after the introduction of water meters. Although it has regional and municipal branch offices, the capacity at the local level to carry out the O&M functions appears limited, with only operators and technicians but no managers, engineers, or specialists.

29. The PCR did not undertake a financial reevaluation of the two revenue-generating water supply subprojects and did not provide an assessment of the financial position of the United Water Supply Company of Georgia. Given these observations, this validation rates the project *less than likely sustainable*.

E. Impact

30. The PCR rated the project impact *substantial*. Beneficiaries realized savings in travel time and vehicle operating costs because of repairs to potholes and cracks in the roads for the rehabilitated roads. The PCR indicated that the municipal governments also benefited from savings in road maintenance costs. The project also led to better access to schools, hospitals, and other public facilities; and improved sales for some retail shops and local markets as a result of improved access for customers and suppliers. WSS subprojects improved the quality water in the four subproject areas. In Poti, for example, water is supplied 12 hours a day, compared to 4.5 hours a day before the project. This was also expected to contribute to improved living standards and public health. Water wastage was reduced from about 50% to an average of 20%–25% after project implementation through the rehabilitation of distribution networks and installation of metered house connections. All beneficiaries interviewed were satisfied with the improved services provided by the subprojects, particularly among people who had previously used artesian wells.

31. The PCR also noted that the project directly benefited the municipal population in terms of improved health and living conditions resulting from (i) a safer and more reliable water supply; (ii) more time to spend on more productive and creative endeavors, which was previously spent collecting water from public faucets, particularly benefiting women and children usually tasked with this activity; (iii) cash savings for households as medical expenses for specific diseases are avoided; and (iv) avoided additional costs for electricity and cleaning agents to ensure water quality. The project also made possible safer, more rapid travel for businessmen and tourists, and increased revenues that contributed to the local and national economies. Urban centers in tourist destinations are now attracting tourists and the development of hotels and resorts has become a priority, together with road and transport linkages to these key destinations. Improved road systems attracted new shops and markets that create opportunities along the supply and retail chain. However, the PCR provided little evidence of these economic impacts. Nonetheless, this validation rates the project impact *significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

32. The PCR rated the performance of the borrower and MDF *satisfactory*. The MDF maintained adequate coordination among ADB, municipal governments, and contractors. All the documents, including subproject appraisal reports and subproject summary reports, were prepared in a timely manner. Reporting requirements were largely met and a total of five semiannual reports were prepared. Unaudited and audited financial statements were also

submitted in a timely manner. The PCR of the borrower was submitted in February 2013. Construction supervision was, in most cases, carried out by municipal government engineers and technical staff, supported by the MDF engineers. Day-to-day construction supervision was undertaken by the municipal government staff, with visits by the MDF engineer on a monthly basis. Almost all the subprojects were completed on time.

33. The poor quality of works with respect to concreting and curb installation on some subprojects was attributed to the limited experience and insufficient knowledge of some municipal governments and some MDF local staff regarding technical standards. Nonetheless, these works were accepted and handed over to municipal governments based on a joint completion inspection. Frequent changes in the MDF organization and management posed a risk to the continuity of their activities. Also, a high turnover of municipal government staff, due to changes in position and responsibilities and low wages, had a negative impact on accountability in the MDF. After the October 2012 general election, some MDF staff were replaced, although most key staff responsible for project implementation remained. Given that there were no major shortcomings in the performance of the borrower and the MDF, this validation rates the performance of the borrower and the executing agency *satisfactory*.

B. Performance of the Asian Development Bank

34. The PCR rated the performance of ADB *satisfactory*. From October 2009 to September 2012, ADB fielded six missions—one inception, four review missions (including a midterm review), and one completion review. The review missions were effective and instrumental in addressing various issues to achieve the timely completion of the project. The MDF noted that ADB approvals and disbursements were made in a timely manner. ADB approved two requests from the MDF for the reallocation of loan proceeds. ADB worked closely with the MDF and gave it timely assistance to solve various problems, such as preparing the project performance monitoring system reports, and procurement and payment issues. The Georgia Resident Mission actively participated in monitoring project implementation. ADB review missions frequently visited the subproject sites and met with municipal government officials, local MDF staff, and contractors to observe the progress of civil works. The missions also interacted with the project beneficiaries and explained the impacts that would affect them during project implementation and upon completion of the project. The mission responded promptly to MDF's queries related to project implementation. This validation also rates the performance of ADB *satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

35. The PCR rated the project *successful*. This validation also rates the project *successful* although it changed the rating on effectiveness from *highly effective* to *effective* and the rating on efficiency from *highly efficient* to *efficient*. The rating on effectiveness was changed because evidence was not supported by data; while efficiency was changed due to the lack of details in the estimation of EIRRs in the PCR, and to the questionable assumptions on the economic benefits of the road improvement subprojects. This validation has similar ratings with the PCR on the other criteria.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Highly relevant	Highly relevant	
Effectiveness in achieving project outcome and outputs	Highly effective	Effective	Lack of evidence presented that could show linkage between outputs achieved and outcome indicators (paras. 20–21).
Efficiency in achieving outcome and outputs	Highly efficient	Efficient	Questionable assumptions regarding economic benefits of road improvement subprojects (paras. 22–26).
Preliminary assessment of sustainability	Less likely sustainable	Less than likely sustainable	
Overall assessment	**Successful**	**Successful**	
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Impact	Substantial	Significant	See paras. 30–31.
Quality of PCR		Less than satisfactory	See para. 41.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.
Note: From May 2012, IED views the PCR rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.
Source: ADB Independent Evaluation Department.

B. Lessons

36. The PCR identified five lessons, as follows: (i) the need for consultation with municipal governments to ensure prompt selection of subprojects; (ii) the need for training of technical staff, local consultants, and contractors in technology and workmanship to comply with international standards; (iii) on-the-job training activities alone are less effective than actual training courses for capacity development; (iv) proper study is needed for issues such as planning and funding of O&M, cost recovery, tariff collection, and the metering system to mitigate the risk of inadequate O&M, water supply, and sanitation facilities; and (v) the need to highlight the usefulness of the management information system for providing project information and data. This validation holds similar views with these lessons and has no other lesson to offer.

C. Recommendations for Follow-Up

37. The PCR recommended that municipal governments should (i) strengthen their capacity for the O&M of roads and municipal infrastructure, including having adequate budget allocations; (ii) ensure that 24-hour supply of water is sustained; (iii) expedite the installation of water meters and introduce appropriate tariffs that are reviewed regularly and regulated; and (iv) review the O&M cost requirements so that water tariffs are set appropriately. It also recommended the capacity enhancement of the municipal government staff, improvement of road safety provisions, and asset inventories and their valuation.

38. General recommendations included (i) developing the MDF as a financial intermediary, (ii) retaining staff during project implementation with competitive wages, (iii) continuing ADB support for municipal infrastructure, (iv) strengthening the capacity of municipal governments, (v) preparing a unified national road design standard, (vi) strengthening the capacity of local construction companies, and (vii) installing a geographic information system in the Ministry of Regional Development and Infrastructure.

39. This validation includes an additional general recommendation. PCRs should review and assess project performance management systems and use the data for substantiating impact and effectiveness in the report. This validation finds the recommendations of the PCR appropriate and has no other recommendation to offer.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

40. According to the report and recommendation of the President (RRP), the MDF was to ensure that a project management information system (PMIS) was maintained at the start of project implementation to monitor and evaluate technical performance and social and economic benefits of the project at 6-month intervals. Performance monitoring indicators and procedures were to be established and the MDF, together with participating municipal governments, was to identify baseline indicators that focus on project municipal services delivery and financial capacity. The need for a PMIS was covenanted in the project agreement and, according to the PCR, was complied with. The MDF maintained the project performance management and information system, updated and submitted a project performance management system report to ADB review missions. However, the PCR did not discuss the project performance management and information system and, therefore, it was not possible to assess its design, implementation, and utilization.

B. Comments on Project Completion Report Quality

41. The PCR was clear and followed ADB guidelines. However, it had shortcomings in the plausibility of assumptions and methods used in calculating EIRRs, which resulted in a change of rating for efficiency in achieving project outcome and outputs. The discussions on the links between the project outputs and outcome indicators were inadequate, resulting in the lower effectiveness rating. There was also a lack of financial analysis of the revenue-generating water supply projects and the financial position of the United Water Supply Company of Georgia. The PCR erroneously presumed the financial internal rate of return as an efficiency measure and there was no assessment of the PMIS. Lessons and recommendations were adequate. On the whole, the quality of the PCR is rated *less than satisfactory*.

C. Data Sources for Validation

42. Data sources included the RRP, PCR, and reports of loan review missions.

D. Recommendation for Independent Evaluation Department Follow-Up

43. The PCR recommended that a project performance evaluation report be prepared in 2015 or 2016. This validation has a similar recommendation. Consideration should be given to preparing a joint project performance evaluation report that includes the Municipal Services Development Project–Phase 1.