



Completion Report

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Georgia: Support to Rail Passenger Services Contracting

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TECHNICAL ASSISTANCE COMPLETION REPORT

TA Number, Country, and Name: TA 6684-GEO: Support to Rail Passenger Services Contracting		Amount Approved: \$225,000	
		Revised Amount: Not applicable	
Executing Agency: Ministry of Economy and Sustainable Development of Georgia	Source of Funding: Technical Assistance Special Fund-Other Sources	Amount Undisbursed: \$31,008.97	Amount Used: \$193,991.03
TA Approval Date: 14 December 2020	TA Signing Date: 14 December 2020	TA Completion Date	
		Original Date: 30 June 2022	Latest Revised Date: Not applicable
		Financial Closing Date: 31 August 2022	Number of Extensions: None
TA Type: Knowledge and support TA	Nature of Activity: Capacity development	TA Arrangement: Small-scale	

Description

The Georgian Railway is a state-owned joint stock company responsible for managing and maintaining railway infrastructure and operating railway services. It has three strategic business units: (i) freight transportation, (ii) passenger transportation, and (iii) infrastructure, all functioning as separate profit centers and producing separate financial statements. The government currently expects the Georgian Railway to operate on a self-financing basis, without capital or operating subsidies. Revenues from freight are the Georgian Railway's main source of income, providing 57% of revenues and more than 90% when associated services are considered (handling, forwarding, freight car rentals). Passenger services are loss-making, where profits from freight transportation cover the losses. Under the recently adopted regulation, this cross-subsidization will no longer be allowed. It became necessary for the Georgian Railway to close a contract with the government by end 2021 to agree on a package of loss-making yet socio-economically desired passenger rail services against a well-determined contribution (subsidy).

To assist the Georgian Railway and the government in the formulation of a fair and transparent public service contract (PSC), the Georgian Railway requested Asian Development Bank (ADB) for technical assistance (TA) to undertake the required analyses and support the organization in preparing a long-term strategy for the provision of passenger services, defining the business development options. To establish a PSC with the government, in-depth analyses are required: (i) rail passenger demand assessment, including competition from other modes of transportation (buses, private cars); (ii) cost pricing of passenger services; (iii) timetabling and interconnectivity with other public transport modes; (iv) staffing; (v) infrastructure charging; (vi) fare schemes and integrated ticketing; (vii) rolling stock investment; (viii) marketing; and (ix) the required compensation (subsidy) for a longer-term contract with the government for the provision of a determined package of passenger services. The Georgian Railway already spent significant time and resources in preparing such a contract, yet required further refinement of contracting details, for which experts' assistance is needed.

The TA is aligned with the knowledge-sharing priority for sustainable infrastructure sector and asset management as outlined in the country partnership strategy 2019–2023¹ and with two key areas of assistance in the country operations business plan 2021–2023:² (i) transport policies and institutional development and (ii) public expenditure and fiscal management.

Expected Impact, Outcome, and Outputs

The TA's expected impact was efficient, modern, demand-driven, and affordable railway passenger transport developed. The outcome of the TA was long-term (minimum x year) agreement between the Georgian Railway and the government for the provision of a determined package of rail passenger services for a specified amount of subsidy. The outputs were (i) rail passenger service business development strategy and implementation plan and (ii) public service obligation contract.

¹ ADB. 2019. [Country Partnership Strategy: Georgia, 2019–2023](#). Manila.

² ADB. 2020. [Country Operations Business Plan: Georgia, 2021–2023](#). Manila.

Implementation Arrangements

As planned, the Ministry of Economy and Sustainable Development (MOESD) of Georgia was the executing agency, and the Georgian Railway was the implementing agency. ADB administered the TA. The Transport and Communications Division of the Central and West Asia Department recruited the consultants, administered the consulting contracts, and monitored the TA activities. It liaised closely with the Georgia Resident Mission to conduct TA activities. The TA implementation period was 18 months as planned, from December 2020 to June 2022. No extensions were needed.

The TA mobilized four international consultants (in total 6.5 person-months) and one national consultant (6 person-months), as planned. The TA was financially closed on 31 August 2022. The required expertise for the assignments included: passenger demand assessment, economics, marketing, timetabling, and public service obligation contracting. The performance of the consultants was satisfactory.

Conduct of Activities

The recruitment of consultants started immediately after TA approval. A team of four international and one national consultant was contracted by March 2021. The inception mission had to be canceled due to the coronavirus disease pandemic, which forced the team to undertake TA implementation through regular online meetings with the Georgian Railway, MOESD, and the Ministry of Finance (MOF). Only the final presentation of TA findings and recommendations took place through a physical meeting held in Tbilisi on 4 May 2022.

After a series of consultations and initial data analyses, the expert team presented a detailed work plan during a video conference on 24 March 2021. After the incorporation of feedback from stakeholders, the team submitted an inception report on 30 April 2021, comprehensively describing the TA approach, planned activities, and expected outputs and/or deliverables. The TA activities were fully aimed to achieve the outcome of the TA, i.e., a contractual agreement between the Georgian Railway and the government for the provision of a determined package of rail passenger services for a specified amount of subsidy.

Output 1: Rail passenger service business development strategy and implementation plan developed. Achieved. A deep and comprehensive analysis of the Georgian Railway's passenger business was undertaken, including an appraisal of the current business model and cost analysis.³ To prepare a draft PSC, assistance to the Georgian Railway was provided to (i) determine a demand-based, socially inclusive,⁴ and interconnected rail service package; (ii) identify options for the alignment of timetables with other public transport services (bus, minibuses, long-distance trains) to maximize connectivity; (iii) review available cost pricing analysis, including essential investments in rolling stock, stations, and platforms; (iv) define a fare scheme with the government that ensures affordability for all (potential) customers; and (v) define the total annually required subsidy.

To gain a thorough understanding of current passenger demand, the consultants prepared online survey forms that were issued by the Georgian Railway. The main purpose of the survey was to determine the opinion of passengers regarding schedules, tariffs, and other relevant factors, both in trains and buses.⁵ This activity provided the Georgian Railway with valuable knowledge and experience in the design and implementation of customer surveys, a key marketing element for the passenger transportation unit.

Output 2: Draft public service obligation contract finalized. Achieved. Three strategic scenarios for passenger train services were defined in relation to (i) improved service offer, (ii) asset management, and (iii) financial strategies. The findings and recommendations were presented in the interim report submitted on 30 September 2021. The report included a detailed PSC (output 2) drafted for an exclusive concession for train service provision for multiple years, including performance indicators linked to financial penalties and bonuses. The draft contract was shared with MOESD and MOF.

³ Current annual costs of all Georgian Railway passenger train services are estimated at GEL50 million.

⁴ The contract needs to include a fare scheme that considers affordability of public transport, as desired by the government, in the form of required fare reductions for various groups such as elderly, students, etc. It is noted though that the current ticket prices in Georgia are already at a relatively low level. Similarly, the government can set accessibility requirements for disabled persons. Discussions between the Georgian Railway and MOF have not included such contract details.

⁵ A total of 238 rail passengers were surveyed, of which 67% were female (in contrast to bus transport data where male prevail). Over 72% have an average or lower than average monthly income i.e., below GEL1,500. The predominant trip reason is private (81.5%), out of which 44% is tourism. Most of the passengers were employed (78%), followed by students (17%), dependents (3%), and retired persons (2%).

While face-to-face meetings and field visits remained impossible, the consultants intensively discussed PSC details and options with stakeholders, refined the scenarios, and advised on the regulatory framework required to facilitate a contractual agreement between the government (MOF as signatory) and the Georgian Railway.

In preparing the draft final report, the team focused on the completion of the passenger service business development options, including a passenger monitoring program, to set a target vision for passenger services. The team prepared a compilation of target key performance indicator values, timetable improvement suggestions, and investment options to further improve the strategy. The draft PSC was revised accordingly and shared again with MOESD and MOF. In addition, a timetable handbook was prepared, presenting the fundamentals of modern passenger timetabling to assist the Georgian Railway in preparing integrated service offers through timetable adjustments. Regarding fare-setting (and possible reduction schemes for special passenger groups [footnote 4]), the government has not been able to provide any guidance, so the current (integrally low) fare scheme remained unchanged pending contract negotiations. The draft final report was submitted on 24 March 2022 and was fully endorsed by the Georgian Railway. The main findings of the TA were presented to stakeholders during a physical workshop on 4 May 2022.

The TA achieved both outputs. Passenger strategies have been fully developed, including subsequent implementation plans and cost estimations, together with a complete draft of the PSC that can serve as a legally binding service provision contract between the government and the Georgian Railway. However, despite all the preparatory work and assistance provided, a PSC has not been signed at closing date of the TA, even though this was considered by the government a highly urgent issue (footnote 1).⁶ Reasons for this are: (i) the absence of a national rail sector policy that sets the country's vision and objectives for passenger rail transport;⁷ (ii) there is no competent agency in place that has the mandate to decide on the specifications of the PSC; (iii) MOF, as the fiscally responsible party, has no experience with this type of contract and no formal mandate to monitor contract implementation; (iv) pending decisions on state-owned entity reform, corporate governance, and ownership; and (v) consequent roles and (fiscal) responsibilities have not been formally allocated. These issues appeared to be key impediments to achieving a contractual agreement, the outcome of the TA.

A particular complication relates to the aged passenger rolling stock, of which a large part will have to be taken out of service in 2023 and 2024. A competent authority needs to be assigned to make decisions on whether the state will either (i) acquire the rolling stock, making it available to the Georgian Railway as part of the PSC; (ii) provide a guarantee for the financing by the Georgian Railway of the rolling stock as part of the PSC; or (iii) make a commitment to take over the (new) rolling stock from the Georgian Railway at predefined financial conditions at the end of the contract at market price. Without timely replacement, passenger services will have to be suspended. Once the regulatory framework has defined the required mandates, the TA deliverables will provide the government with all information to reach a consensus on the contents of a PSC.

During the final stage of TA implementation, upon government request, ADB started preparing a policy-based loan for railway sector reform. The signing of a PSC will be incorporated into the envisaged policy matrix. ADB had several in-depth discussions with TA consultants to ensure continued engagement.

Technical Assistance Assessment Ratings

Criterion	Assessment	Rating
Relevance	At the time of processing, the TA was responding to an urgent request from the government to provide support with the objective of establishing a (signed) PSC soonest to comply with a recently amended Railway Code (in order to harmonize with European Union rail sector directive as demanded under the Association Agreement). A knowledge and support TA was the most appropriate TA type in response to this request. However, unclarity as regards MOF's actual mandate to sign a PSC, as well as the absence of a guiding government policy for rail passenger transport to define the service package, and the consequent amount of compensation were key	Relevant

⁶ The amendment of the Railway Code (footnote 1) was triggered by the Association Agreement between the European Union and Georgia, which entered into force on 1 July 2016. Under this agreement Georgia committed to a 7-year program to harmonize sets of policies in different sectors with European Union directives, including the railway sector. According to sector directives, contracting of loss-making passenger is required to abolish cross-subsidization from freight revenues.

⁷ Georgia has no ministry of transport. Transport policy development is under the MOESD. However, this ministry had no rail sector experience because the state never had to intervene in, nor provide fiscal support to the sector. Currently, the ministry is focusing on the development of the legal framework. A national transport policy paper is still to be developed.

Criterion	Assessment	Rating
	<p>impediments to achieving a contractual agreement, the outcome of the TA. Given the intention to quickly respond to the request for assistance and the short TA implementation time, these issues could not be adequately resolved within the scope and implementation period of the TA.</p> <p>The TA's outputs were fully aligned with government needs and supported an essential element in railway sector reform. Aligned with ADB's 2030 strategy, the TA allowed ADB to engage in Georgia's rail sector for the first time and provided an important stepping stone to ongoing PBL preparation.</p>	
Effectiveness	The intended TA outcome was fully aligned with the expected results and delivered the outputs as envisaged. The TA responded quickly and adequately to the beneficiary's assistance needs through the provision of a series of experts. While the TA's rationale was clear, and the amended Railway Code seemed to be facilitating a PSC, the existing regulatory framework appeared to be inapt to reach a long-term agreement between the government and the Georgian Railway.	Less than effective
Efficiency	The TA outputs were delivered within budget and within 18 months as projected at design. Despite the pandemic forcing consultants to work online throughout TA implementation, the team has been able to maintain strong work relations and produce high-quality reports, analyses, and presentations timely, including a complete draft PSC that can be subject to negotiations at any time. The PSC will be the vital instrument to ensure the provision of loss-making, yet socio-economically important passenger services.	Efficient
Overall Assessment	The TA is rated <i>less than successful</i> because the outcome was partially achieved. The TA has successfully delivered the envisaged outputs that were fully aligned with the government request; however, the existing regulatory framework does not allow for a long-term agreement between the government and the Georgian Railway. A public service obligation contract is expected to be signed in 2023.	Less than successful
Sustainability	The TA outputs have been achieved with a high level of detail and remain available to all stakeholders once the regulatory framework allows for negotiation and signing of a PSC based on a rail passenger service strategy as targeted by government's sector policy.	Likely sustainable

Lessons Learned and Recommendations

Design and/or planning	The TA primarily focused on supporting the Georgian Railway in the formulation of the passenger transport strategy and the draft contract. Since all passenger services in Georgia will be subject to the PSC, the TA could have engaged further with MOESD and MOF throughout the TA implementation, given their limited exposure and knowledge of the sector, to proactively seek feedback on the risks perceived and address how the clauses in the contract can mitigate these risks.
Stakeholder participation	Although online work due to the pandemic complicated communication, more frequent, dedicated meetings with MOESD and MOF may have strengthened the coordination among PSC stakeholders.
Replication and/or scaling up	The approach and development of business development strategies for the contracting of rail passenger services (as provided by consultants' reports), as well as the draft PSC will be valuable reference material for any other engagement of ADB in the development of rail passenger service PSCs.

Follow-up Actions

ADB will continue to provide assistance for passenger service contracting under a TA to prepare a PBL for railway sector reform in Georgia, building on the considerable analytical, strategy formulation, and planning work conducted under this small-scale TA.

Prepared by:

Jurgen Sluijter

Designation and Division:

Senior Transport Specialist
Transport and Communications Division
Central and West Asia Department

DESIGN AND MONITORING FRAMEWORK

Impact: Efficient, modern, demand-driven, and affordable railway passenger transport developed ^a		
Results Chain	Performance Indicators with Targets and Baselines	Achievements ^a
Outcome Long-term (minimum x year) provision of a determined package of rail passenger services for a specified amount of subsidy	By 2023, a PSO contract signed by the Ministry of Economy and Sustainable Development and the Georgian Railway (2020 = none) (OP 6.2)	a. Partially achieved. Existing regulatory framework does not allow for a long-term agreement between government and the Georgian Railway. Achievement expected in 2023.
Outputs 1. Rail passenger service business development strategy and implementation plan developed 2. Draft PSO contract finalized	1a. By 2022, a 5-year rolling passenger services business development and implementation plan approved by the Georgian Railway management (baseline = 2020) (OP 6.2.2) 2a. By 2022, a PSO contract approved by the Georgian Railway management to be negotiated with government (baseline = 2020) (OP 6.2.1)	1a. Achieved. Three business development strategies with implementation plans and cost estimates were prepared and fully endorsed by the Georgian Railway management. These will be decided by government. 2a. Achieved. Detailed draft PSO contract including Appendices were prepared and approved by the Georgian Railway management for negotiations. Specific contract details on compensation and KPIs will depend on government strategy for rail passenger services. Negotiations are pending.
Actual Key Activities with Milestones		
1. Rail passenger service business development strategy and implementation plan developed		
1.1 Detailed, gender and socially inclusive analysis of current rail passenger business practices was conducted in April-December 2021. 1.2 Draft passenger business strategy was formulated in August 2021. 1.3 A gender and socially inclusive customer monitoring program to regularly assess customer needs and desires for passenger transportation through surveys, interviews and other monitoring tools was developed in June 2021-February 2022. 1.4 A gender and socially inclusive rail passenger business development strategy describing objectives, budget, staff, policies, and marketing, including a short- and long-term implementation plan, was finalized in December 2021.		
2. Draft PSO contract finalized		
2.1 Demand assessment of all potential PSO lines, including site visits, (potential) passenger surveys, and analysis of competing modes were reviewed in April-August 2021. 2.2 Gender and socially inclusive proposal for passenger trains service package, including investment needs, timetable, and quality standards were developed in July-December 2021. 2.3 Fare scheme was defined in August 2021, as agreed by the government, identifying groups of passengers and distinctive fares, to estimate revenues to be collected from the contracted train services. 2.4 Detailed and transparent cost pricing of proposed train services was defined in August 2021 to estimate annual operational cost. 2.5 Required investments in infrastructure, rolling stock, stations and platforms, and systems defined in December 2021 to provide a minimum agreed service level (speed, comfort, capacity, accessibility, safety, and passenger information systems), as agreed with the government, and funded under and outside the PSO contract. 2.6 A final draft PSO contract was fully prepared and shared with MOF and MOESD in March 2022. Negotiations pending.		

Actual Inputs

Asian Development Bank: \$193,991.03 (TASF-Other Sources)

KPI = key performance indicator, MOESD = Ministry of Economy and Sustainable Development, MOF = Ministry of Finance, PSO = public service obligation, OP = operational priorities, TA = technical assistance

^a Defined by TA.

Contribution to Strategy 2030 Operational Priorities:

- 6.1 Entities with improved management functions and financial stability (1). The Georgian Railway as an entity will benefit from capacity building and improve its management functions and financial stability.
- 6.2.1 Service delivery standards adopted and/or supported in implementation by government and/or private entities (1). The Georgian Railway and the government agree on the provision of loss-making passenger rail services in a transparent contract at a fair amount of subsidy.
- 6.2.2 Measures supported in implementation to strengthen subnational entities' ability to better manage their public finances (1). The Georgian Railway will increase its operational and financial performance in providing rail passenger services to the public.

Source: Asian Development Bank.

TECHNICAL ASSISTANCE COST

Table A2.1: Technical Assistance Cost by Activity
(\$'000)

Item	Amount	
	Original	Actual
1. Consultants	192.0	194.0
2. Goods	1.0	0.0
3. Training, seminars, and/or conferences	15.0	0.0
4. Surveys	5.0	0.0
5. Contingency	12.0	0.0
Total	225.0	194.0

Source: Asian Development Bank estimates.

Table A2.2: Technical Assistance Cost by Fund
(\$'000)

	TASF-Other Sources	Total Cost
1. Original	225.00	225.00
2. Actual	194.00	194.00
3. Unused	31.00	31.00

TASF = Technical Assistance Special Fund.

Source: Asian Development Bank estimates.