



Technical Assistance Report

PUBLIC

Project Number: 55192-002
Transaction Technical Assistance (TRTA)
April 2022

Georgia: Preparing the Railway Sector Reform Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 March 2022)

Currency unit	–	lari (GEL)
GEL1.00	=	\$0.31
\$1.00	=	GEL3.20

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
TA	–	technical assistance

NOTE

In this report, "\$" refers to United States dollars.

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 55192-002	
Project Name	Preparing the Railway Sector Reform Program	Department/Division	CWRD/CWTC
Nature of Activity Modality	Project Preparation Regular	Executing Agency	Ministry of Finance
Country	Georgia		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Rail transport (non-urban)		0.250
		Total	0.250
3. Operational Priorities		Climate Change Information	
✓ OP6: Strengthening governance and institutional capacity		GHG Reductions (tons per annum)	0.000
✓ OP7: Fostering regional cooperation and integration		Climate Change impact on the Project	Low
		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 5.5		Some gender elements (SGE)	✓
SDG 9.4			
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization	Complex		
5. Safeguard Categorization	Safeguard Policy Statement does not apply		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.250	
Transaction technical assistance: Technical Assistance Special Fund		0.250	
Cofinancing		0.000	
None		0.000	
Counterpart		0.000	
None		0.000	
Total		0.250	
Currency of ADB Financing: US Dollar			

I. THE ENSUING PROJECT

1. The proposed Railway Sector Reform Program aims to establish the economic and financial sustainability of the railway sector in Georgia, with profitability and debt service coverage ratios reestablished at effective levels. The program will provide a policy-based loan to assist in the reform of the Georgian railway system to strengthen financial stability and investment planning capacity through the provision of more efficient, demand-driven railway transport services for both freight markets and passenger public service obligations.

2. The Asian Development Bank (ADB) will provide a transaction technical assistance (TA) grant to the Government of Georgia and Georgian Railway to support capacity building and the design and implementation of railway reforms. This includes assistance in implementing the policy loan by supporting the Georgian Railway departments that oversee the reforms identified in the program's policy matrix.

3. The proposed TA aims to achieve the same objectives as the program, and will support outputs, in line with the program scope:

- (i) ownership policy and sector legal reforms to achieve competitive neutrality and international market integration;
- (ii) corporate governance upgrades, financial performance, and financial restructuring;
- (iii) operational and service delivery standards and corporate restructuring to improve commercial efficiency; and
- (iv) upgrades in investment planning and internal marketing capacity.

4. Besides the ADB policy-based loan, the proposed program will be directly linked to a parallel loan of €30 million provided by the Agence Française de Développement (AFD), including TA of €500,000 to support the implementation of the policy matrix. TA provided by ADB and AFD will be closely aligned. The ADB TA will focus on policy actions related to corporate and financial restructuring, human resources restructuring, and Georgian Railway's operational performance improvement (including contracting of passenger services), while the AFD TA will support the implementation of policy actions related to overall sector structuring (regulatory framework, including alignment with European Union guidelines), sector policies and strategy development, and the development of a freight transport strategy with consequent investment planning.

5. The experts allocated to the implementation of the policy loan component of the program will coordinate closely with the top management of Georgian Railway to plan and monitor reforms and improvements along key performance indicators.

6. The program will be aligned with the following overarching country development objective: strengthen public finance management and increase economic growth. The outcome will be provision by Georgian Railway of financially sustainable and efficient railway transport services for both freight markets and passenger public service obligations.

II. THE TECHNICAL ASSISTANCE

A. Justification

7. Georgian Railway management, the Ministry of Finance, and the Ministry of Economy and Sustainable Development face the following railway sector challenges:

- (i) lack of capacity to plan needed investments, or to implement medium-term commercially successful strategies for freight and passenger services;

- (ii) unprofitability and lack of debt-carrying capacity, with periodic refinancing risks on Eurobonds and hence no capacity to finance new investments;
- (iii) high cost structure that does not allow for modernization and service improvement; and
- (iv) Georgian Railway's low market share in the transit and domestic freight business, leading to high average costs.

8. The transaction TA will help the government prepare and implement a sector reform program to improve Georgian Railway's operational and financial performance and to develop a sustainable railway sector in Georgia. The program will address the following root causes of the challenges listed in para. 7: (i) the absence of sector overarching strategic or legal and regulatory frameworks; (ii) legacy indebtedness, and zero fiscal support for loss-making passenger services or the operation and maintenance cost of strategic assets; (iii) operational inefficiencies and a legacy surplus workforce; and (iv) lack of transport policies that provide equal treatment of rail and road freight.

B. Outputs and Activities

9. The major outputs and activities are summarized in Table 1.

Table 1: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Program Preparation Due Diligence	June 2022/ October 2022	1.1 Detailed sector assessment (May 2022) 1.2 Policy gap analysis (May 2022) 1.3 Agreed policy actions first subprogram with reform implementation plan (June 2022) 1.4 Agreed policy actions second subprogram (October 2022)
2. Capacity Building for Program Implementation	April 2022– December 2023	2.1 Capacity support with external consultancy to Georgian Railway, MOESD, and MOF in identification and implementation of phased policy matrix (April 2022–October 2023)
3. Program Coordination	April 2022– December 2023	3.1 Coordination support provided to MOF, MOESD, and Georgian Railway (April 2022–December 2023), in cooperation with AFD

AFD = Agency Française de Développement, MOF = Ministry of Finance, MOESD = Ministry of Economy and Sustainable Development.

Source: Asian Development Bank.

C. Cost and Financing

10. The technical assistance (TA) is estimated to cost \$275,000, which includes the estimated amount of in-kind contributions by the counterpart. The TA financing amount is \$250,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The key expenditure items are listed in Appendix 1.

11. The government will provide counterpart support in the form of counterpart staff, office space, office supplies, domestic transportation, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

12. ADB will administer the TA. The Transport and Communications Division of ADB's Central and West Asia Department will recruit the consultants, administer the consulting contracts, and monitor the TA activities. The division will liaise closely with ADB's Georgia Resident Mission for the conduct of TA activities.

13. Implementation arrangements are summarized in Table 2.

Table 2: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period ^a	April 2022–December 2023		
Executing agency	Ministry of Finance		
Implementing agencies	Georgian Railway Ministry of Economy and Sustainable Development		
Consultants	To be selected and engaged by ADB		
	Individual selection	International expertise (8.5 person-months)	\$180,000
	Individual selection	National expertise (3.5 person-months)	\$20,000
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

14. **Consulting services.** ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.¹ The consulting services² will comprise (i) five international consultants with railway expertise in business development, sector reforms, corporate finance railway planning and operations, and labor rationalization; and (ii) one national consultant to coordinate program implementation. These consultants will be selected through the individual consultant selection method, and output-based and/or lump-sum contracts are expected for all consultants, wherever appropriate.

¹ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

² The AFD TA will provide part of the program implementation support, focusing on regulatory alignment with European Union guidelines, sector policy development, formulation of Georgian Railway's freight strategy, and the assessment of investment needs.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	180.0
ii. National consultants	20.0
b. Out-of-pocket expenditures	
i. International and local travel	26.0
ii. Reports and communications	2.0
2. Goods (rental or purchase) ^b	2.0
3. Training, seminars, and conferences	
a. Venue rental and related facilities	3.0
b. Participants	2.0
c. Representation ^c	1.0
4. Contingencies	14.0
Total	250.0

Note: The technical assistance (TA) is estimated to cost \$275,000, which includes the estimated amount of in-kind contributions by the counterpart, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office accommodation, domestic transportation, and other in-kind contributions. The value of the government contribution is estimated to account for 9% of the total TA cost.

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

^b Procurement of goods will be in accordance with the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

^c This will follow the Asian Development Bank's guidelines for representation. ADB (Budget, Personnel, and Management Systems Department, and Strategy and Policy Department). 2013. Use of Bank Resources: Regional Technical Assistance and Technical Assistance vs. Internal Administrative Expenses Budget. Memorandum. 26 June (internal).

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55192-002-TARreport>

1. Terms of Reference for Consultants