

**Project title: Good Financial Governance in Georgia (GFG)**

**Project number/cost centre: 23.2128.9 -001.00/3900**

**Country: Georgia**

**Preparation of cost-benefit analyse (CBA) of investment/capital projects in municipalities**

## 1. Brief information on the project

Title: Good Financial Governance in Georgia (GFG)

GFG is implemented by *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH* on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

Programme Objective: Selected Georgian municipalities plan and implement their budgets in a more result – oriented, gender - sensitive and participatory way.

Fields of Action:

- a) The municipal budget planning system is geared towards cost efficiency and result orientation
- b) Selected municipalities are fully accountable for implementing their budgets
- c) Citizen participation in local budget planning and implementation processes

Commissioning period: 01/04/2023 – 31/03/2026

## 2. Context

The methodology and guideline for the investment project management has been introduced within the Georgian legislation since 2016. In 2019, abovementioned documents were refined within the framework of the technical assistance of the International Monetary Fund (IMF).

The methodology envisages whole cycle of the project selection, planning, implementation and post-implementation monitoring.

The investment project management guideline and methodology applies to investment / capital projects valued at or exceeding 5.0 million GEL. However, considering the specifics of the municipalities (the existence of relatively smaller investment projects in terms of fiscal resources and scale), it is essential to implement this practice on investment projects valued at less than 5.0 million GEL, which will complement to improved financial management of municipalities. Simultaneously, abovementioned will complement to increased capacities of the employees working in this field within the municipalities.

Currently, it is not feasible to carry out the whole cycle management defined by the methodology on the relatively small projects, as neither the information required for the whole cycle is completely available nor the qualifications of municipal employees are sufficient.

Consequently, at the initial stage the Ministry of Finance of Georgia intends to launch preparation of solely one part of the methodology - cost-benefit analysis (CBA) for the small infrastructure projects planned within the municipalities.

Preparation of cost-benefit analysis (CBA) of investment / capital projects is essential in making decision with the purpose of ensuring efficient usage of resources and determination of its economic expediency, as well as in assessment of the alternatives of the project. In particular, the preparation of cost-benefit analysis (CBA) is an essential aspect for the investment project management, allowing assessment of the estimated costs and benefits of potential investment projects and their comparison. Abovementioned will facilitate the selection and implementation of the project / alternative project that will bring more benefits to achieve the specific goal. Ultimately, this is the basis for making the right decision and ensuring the efficient usage of financial resources.

Considering the abovementioned, the GIZ Good Financial Governance Program will support municipalities in preparing cost-benefit analysis (CBA) of projects that municipalities intend to launch in 2023-2024.

To this end, GFG will select the applicant that will perform the assignment presented below for the Ministry of Finance of Georgia.

### 3. Tasks to be performed by the contractor

- a. GIZ shall hire service provider for the anticipated contract term, from 01.07 to 30.10.2023
- b. The service provider shall conduct the following work/service:

#### Preparation of cost-benefit analyse (CBA) of investment/capital projects in municipalities municipalities by applying PEFA indicators:

The Ministry of Finance of Georgia, in consultation with the Ministry of Regional Development and Infrastructure of Georgia, will select totally 8 projects (with project volumen from 5 million GEL till 20 million GEL) of 8 pilot municipalities of GFG (Rustavi, Telavi, Akhalzikhe, Khashuri, Kharagauli, Dusheti, Ozurgeti, Keda) from the projects presented within the Action Plan of the Regional Development Strategy that are well regarded / accepted by the Regional Advisory Board.

The winner of Tender shall ensure the preparation of a cost-benefit analysis (CBA). In order to collect the data necessary for the analysis, the winner shall ensure conduct of working meetings with the representatives of the relevant municipality.

Cost-Benefit Analyses (CBA) of investment / capital projects shall be prepared in accordance with the №141 Decree of the Government of Georgia 'On Approval of Investment Project Management Guideline' dated from April 22, 2016 (hereinafter - the Guideline) and the Annex 5 of the №385 Order of the Minister of Finance of Georgia 'on Approval of the Methodology of the Program Budgeting' (hereinafter – the Methodology) dated from July 8, 2011, considering the following basic principles:

- **Determine the project duration with the purpose of assessing the major costs and benefits in accordance with the content of the Project** - the guideline and methodology determine the analysis periods of investment / capital projects in accordance with sectors. Usually, the period for analysis coincides with the validity period of the key assets created within the project. To estimate the costs and benefits

of the project, it is recommended to assess a period of 15-20 years. However, the limit of the project analysis period can be changed, in case of the appropriate justification.

- **Detailed analysis of the demand** - one of the prerequisites for a good project assessment is a detailed analysis of the demand, which is essential for an accurate estimate of costs and benefits. Along with the detailed demand analysis, it is vital to determine the demand growth prediction during the project. The level of detail of demand forecasts may vary depending on the scale of the project or how novel the project is in terms of its content. Depending on the type of project, such prediction indicators can be: school enrolment rate, hospital load, traffic intensity, water consumption, solid waste generation, etc.
- **Determine the major types of costs and benefits** – based on an estimate of the alternative costs, as well as on the basis of an additional costs to be rendered for a specific project from the relevant budget, quantify all projected capital and current costs in monetary terms. Types of costs and benefits vary according to the content, importance and available data of the project. **Costs and benefits are calculated over the duration of the project.**
  - o **Costs** - typical costs include: **capital costs** (purchase of land and buildings, infrastructure works, purchase of equipment, furniture, machines, computers, software, installation and implementation costs, etc.) and **current / operational costs** (development costs including staff and consulting, as well as costs of other professional services, utility costs, rent and leasing costs, maintenance costs, alongside with the various unforeseen costs). In order to ensure long-term benefits for the end user, it is also essential that the organization responsible for the operation and maintenance of the facility have the sufficient managerial and financial resources for the efficient usage of the created assets. Abovementioned on its side will ensure the sustainability of the project.
  - o **Benefit** varies according to the content of the project. While determining the benefits, it is essential to analyze the impact of the project on users and non-users, as well as the possible external factors shall be analyzed. For example, in case the project is concerning the road construction / rehabilitation, the benefits could be reduced operating costs for transferring the traffic to an alternative route, reduced road maintenance costs. The benefits also could be social, political, as well as acquisition of knowledge; expression of such benefits in monetary value is linked to difficulties. Therefore, it can be presented in the descriptive part of the project.
- ✓ **Economic Cost-Benefit Analysis (CBA)** – in the process of the economic cost-benefit analysis (CBA) the costs and benefits of an investment project in the context of economy are assessed. Throughout the process, it goes beyond the narrow range of financial performance of the implementing agency and includes cost-benefit estimates in the context of the community, including the costs and benefits that cannot be directly monitored at market prices. The analysis include identification, evaluation, analysis and ranking of the prices and benefits according to net economic efficiency.
- **Calculation of Net Present Value (NPV)** – Calculation of the sum of the discounted annual values of the net benefit of the project (costs deducted from benefits). In the cost-benefit analysis (CBA) the preferred criteria for assessing the project is Net Present Value (NPV) and is used to assess the project in order to identify the lowest cost alternative. According to the methodology, 5% discount rate is recommended. However, taking into consideration the specifics of the particular project and relevant justification, abovementioned rate could be changed.
- **Determine the Cost-Benefit ratio** – ratio of total discounted benefits over the total discounted costs throughout the entire project life cycle.
- **Determine the alternative costs of the project** – while assessing the project, alternatives to the project (if any) should be evaluated, in order to analyze costs and benefits of the project for cases when the project is implemented.

- Formularbeginn

As a result of project activities, based on experience, recommendations will be developed for the management of investment projects, which will include generalized practical advice for other municipalities in this area.

#### **4. Reporting and payments Terms of contract and reporting**

Reporting will be conducted by accomplishing all tasks of assignment.

The final payment will be performed based on the submitted final report (estimated on 30.10.2023). The final report should include the information defined by the application for procurement of consulting services, as well as the information on accomplishing all tasks envisaged under the work plan.

The reporting on the performance of the work should be made in Georgian language. While, the main summary of the assessment part should be also performed in English.

#### **5. Submission and Selection of Proposal**

Partner for the consultancy service will be selected based on a competition.

Entrepreneurial (LLC) and non-entrepreneurial legal entities (NLE, NPO) organizations are eligible to participate in the competition.

GIZ reserves the right to check the information indicated in the application. Application will be cancelled in case of inaccurate information.

##### **Selection criteria**

1. Experience and competence of the organization's capabilities and assignment-related experience in executing similar projects. (Proposal should demonstrate specific experience on conducting similar assignments)
2. Adequacy of technical proposal and project implementation methodology;
3. Experience/ability of the organization's team to carry out an assessment outlined in the ToR (*will be defined according to the implemented similar project(s) by the organization's team; this shall be indicated in the CVs of the presented experts*);
4. Budget cost efficiency.

*More detailed information on assessment criteria is provided in the annexed assessment grid.*

## Assignment of personnel

In the period from 01.07.2023 to 30.10. 2023 for the implementation of the services described in these ToR up to 5 persons (in total up to 190 expert days) are planned:

| Personell             | Number of Experts (up to) | Expert days (up to) |
|-----------------------|---------------------------|---------------------|
| Project Manager*      | 1                         | 45 days             |
| Senior Expert**       | 2                         | 35 days             |
| Expert***             | 2                         | 30 days             |
| Project assistant**** | 1                         | 15 days             |

## Qualifications of personnel

### \*Project Manager

#### Qualifications of the project manager (with assessment grid number)

- Education (2.1.1): University degree in Economics, Finance and Business or related field
- General professional experience (2.1.2): At least 7 years of professional experience in the PFM sector
- Specific professional experience (2.1.3): Experience in project investment management issues
- Leadership/management experience (2.1.4): Project manager of similar projects

### \*\*Senior expert 2 members

#### Qualifications of senior expert (with assessment grid number)

- Education (2.2.1, 2.3.1): University degree in Economics, Finance and Business, Management or related field
- General professional experience (2.2.2, 2.3.2): At least 5 years professional experience in the PFM Sector
- Specific professional experience (2.2.4, 2.3.4): Participation in similar projects

### \*\*\*Experts 2 members

#### Qualifications of senior expert (with assessment grid number)

- Education (2.4.1, 2.5.1): University degree in Economics, Finance and Business or related field
- General professional experience (2.4.2, 2.5.2): At least 3 years professional experience in the PFM Sector

### \*\*\*\*Project assistant

#### Qualifications of project assistant (with assessment grid number)

- General experience (2.6.1): Experience in the project assistant

The tenderer must provide CV-s and a clear overview of all proposed short-term experts and their individual qualifications.

## 6. Requirements on the format of the tender

### 6.1. Technical proposal shall include the following information:

#### 1. Title page

Name and registration number of organization; legal address, telephone number, e-mail address, director of organization, signature and stamp of a director.

#### 2. Project Description

##### 2.1 Project name and implementation period (month/year-month/year)

##### 2.2. project goals and objectives

##### 2.3 Activities defined by the project and implementation schedule

| #   | Activity | April | May | June | Comment            |
|-----|----------|-------|-----|------|--------------------|
| 1   | X        |       |     |      | <i>If relevant</i> |
| 2   | Y        |       |     |      |                    |
| 3   | Z        |       |     |      |                    |
| ... | ...      |       |     |      |                    |

##### 2.4 Persons involved in the project and their functions

Please, indicate the list and functions of persons, who will be involved in the implementation of the project and will be respectively indicated in the budget. Resumes of the respective persons should be attached to the application.

##### 2.5 Annex

Respective Resumes (CV) of the people involved in the implementation of the project should be attached to the application.

Applicant may attach any additional relevant information to the application.

### 6.2. The Financial offer

Please calculate your price bid based exactly on the costing requirements. The specifications for pricing are defined in the attached price schedule which is required to be used for the preparation of the financial offer.

Budget should not contain the costs that are not relevant for the activities envisaged under the project. Ongoing costs of the organisation won't be covered by budget.