**THE GOVERNMENT OF GEORGIA**

**RESOLUTION N 679**

**December 31, 2019 Tbilisi**

**On Amendments to the Resolution N 191 (April 22, 2016) of the Government of Georgia on Approving the Roadmap for Managing Investment Projects**

**Article 1**. Pursuant to Article 20 (4) of the *Organic Law of Georgia on Normative Acts* introduce the following amendments to the Resolution N 191 (April 22, 2016) on Approving the Roadmap for Managing Investment Projects ([www.matsne.gov.ge](http://www.matsne.gov.ge) , 26. 04. 2016, 010240020. 10. 003. 019256) and:

1. **Formulate Article 3 as follows:**

**“Article 3**

1. Spending agencies of the state budget, local self-government units and autonomous republics, when preparing investment projects, shall ensure observance of principles provided for in the roadmap approved under this Resolution with respect to those projects the preliminary selection stage of which starts after entry into force of the present Resolution and the estimated cost equals or exceeds GEL 5 million.
2. The principles of the roadmap approved under the present Resolution shall not extend to projects the preliminary decision on implementation of which is made prior to publication of the present Resolution or the work is in progress to reach such decision.
3. Financial authorities of the autonomous republics and municipalities shall coordinate the implementation process of the present roadmap.”
4. **The following Article 31 shall be added after Article 3:**

**“Article 31**

1. Establish an inter-agency commission with the following composition for managing the investment projects (hereinafter the Inter-Agency Commission) provided for in the roadmap for managing investment projects approved under the present Resolution:
2. Deputy/ deputies of the Minister of Finance of Georgia who are in charge/ supervise budget and fiscal risks;
3. Deputy/ deputies of the Minister of Economy and Sustainable Development of Georgia who are in charge/ supervise economic policy and analysis;
4. Deputy/ deputies of the Minister of Regional Development and Infrastructure of Georgia who are in charge/ supervise relations with the municipalities and decentralization;
5. Deputy/ deputies of the Minister of Environment Protection and Agriculture of Georgia who are in charge/ supervise environment impact assessment;
6. Deputy/ deputies of the Minister of IDPs from the Occupied Territories, Labor, Health and Social Affairs of Georgia who are in charge/ supervise social protection policy;
7. Head of the LEPL Public Private Partnership Agency.
8. Request officials of the Georgian ministries, municipalities or/ and autonomous republics, holding political positions, to work in inter-agency commission as necessary;
9. The Ministry of Finance of Georgia shall perform the function of the secretariat for the Inter-Agency Commission;
10. The Inter-Agency Commission for the purpose of fulfilling the functions defined under this roadmap shall be entitled to define the procedure for its operations and the criteria system for assigning scores for prioritizing projects;
11. Assign the Inter – Agency Commission to draft the Rule for Defining the Discount Rate to be used in Investment Project Evaluation Process by March 1, 2020.”

Article 2. The present Resolution shall come into force upon publication.

Giorgi Kvirikashvili Prime Minister

*(Decree №191 of the Government of Georgia of April 22, 2016)*

**Appendix №1**

**Public Investment Management Guidelines**

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**Chapter I**

**Key Concept of Public Investment Management**

**Article 1. General Provisions**

1. “Public Investment Management Guidelines” (hereafter the "Guidelines") are designed to assist budgetary organizations to evaluate capital investment proposals in a consistent and comprehensive manner and to prioritize competing projects, which is an essential part of the national and sector economic entity´s strategic planning and budget preparation process.
2. The Guidelines determine specific criteria in order to ensure consistency and standardization in the process of project pre-selection / appraisal, final selection / appraisal and reflection in the budget.
3. The Guidelines define the overarching framework for public investment projects, on the basis of which the Minister of Finance of Georgia approves the "Methodological Manual for Public Investment" as part of the capital budgeting methodology.
4. The Guidelines provide rules and procedures for developing investment projects and define the roles and responsibilities of bodies involved in each stage of the PIM process prior to implementation of a capital investment project. The Guidelines enable to evaluate different capital investment proposals in a consistent manner and to prioritize competing projects in a strategic planning and budgeting process in the context of the national, sectoral and regional economics.

**Article 2. Key Stages of Public Investment Management**

1. According to the best international practices[[1]](#footnote-1) Public Investment Management process consists of six essential components: project pre-selection appraisal, project final selection / appraisal, project reflection in budget, project implementation, project monitoring and ex-post (final) evaluation (see Figure №1). All stages shown on the Figure №1 are discussed in the Guidelines. These stages will be discussed in more detail in the Methodological Manual.

**Figure 1: Key Features of the Public Investment Management Process**

1. Procedural requirements, key roles and responsibilities of the involved parties, as well as the roles of a project proposer/planner, an appraiser, a reviewer, and/or a decision-maker are stated in the Guidelines.
2. According to the Guidelines, investment projects are all **financially significant public investment projects that are financed (or co-financed in cases determined under the Guidelines)** with funds provided by the budget and all projects, considered as such, **with an estimated total project cost of GEL 5.0 million or more.**
3. Public investment project implies all investments made by budget organizations of the Central Government, Municipality or the Autonomous Republic and/or financed by their respective available budgets.
4. The methodology shall also apply to the investment projects funded by the Entrepreneurial Legal Entities classified under the Decree of the Government of Georgia №2737 of December 28, 2017 “On Determining the Rules and Principles of Financing the Entrepreneurial Legal Entities from the State Budget, Republican Budget of Autonomous Republic and Budget of Local Self-Government” as:
5. State-owned enterprises within the public administration sector;
6. State-owned corporations, only if the total cost of their investment project and / or the total liabilities (including contingent liabilities) associated with this project exceed 10% of the value of the assets of the entrepreneurial legal entity.
7. With respect to the projects implemented in cooperation with the private sector and funded from the state, autonomous republican or municipal budget, the Guidelines shall apply in accordance with the Law of Georgia on Public-Private Partnerships and regulations determined under the Decree of the Government of Georgia №426 of August 17, 2018, "On the Approval of the Rule for the Development and Implementation of Public-Private Partnership Projects”.
8. The Ministry of Finance of Georgia shall review and evaluate the projects, initiated under the Law of Georgia on Public-Private Partnerships and the Decree of the Government of Georgia №426 of August 17, 2018, "On the Approval of the Rule for the Development and Implementation of Public-Private Partnership Projects”, in accordance with the procedures set forth in this Guideline and obligations of the Ministry of Finance of Georgia determined by this Guideline and the above-mentioned rule. At a later stage, the procedure for reviewing and agreeing such projects with the higher authorities is regulated by the legislation governing public-private partnership projects.
9. Point 7 of this Article shall also apply to a project initiated in accordance with the procedure set out in this Guideline, although, in the process of reviewing, it was deemed necessary to implement the project through a public-private partnership.
10. When evaluating a public-private partnership project, a price-quality ratio method is used, which is determined by the rule established by the Georgian legislation.
11. The guidelines shall not apply to the projects related to the liquidation of the consequences of natural disasters.

**Article 3. Definitions**

1. Some definitions applied in the Guidelines are:
2. **An Investment (Capital) Project** is a combination of activities with clearly defined goals and outcomes that are carried out over a fixed time schedule and creates an asset that provides benefits to a specific group of beneficiaries and/or the ability to use the benefits received.

An investment project is a large-scale investment project, the final product of which becomes an integral part of the economic activity or significantly facilitates economic development. Capital Project involves the creation of important infrastructure or significant and substantial improvement of the existing one.

While identifying the investment project, it is essential to consider that for the purposes of this Guideline, the investment project should be linked to the deliberate investment decision and not just to the asset’s condition. The project is expected to significantly increase the performance or capacity of the asset, or the life expectancy and the cost of the asset. An investment (capital) project is not the maintenance, repair and even capital rehabilitation of the existing assets unless the asset's role in the economic activity changes substantially.

1. **Capital expenditure** is the expenditure on the acquisition of fixed assets. Fixed assets include tangible assets (buildings, structures, machinery, and equipment) and intangible assets (information, communication, IT systems). Capital expenditure extends to major improvements (renovations, reconstructions or enlargements) of existing fixed assets. Capital expenditures are distinguished from maintenance and repair, because they require a deliberate investment decision that is independent of the asset’s condition. Such expenditures significantly increase the performance or capacity of an existing fixed asset or significantly extend its previously expected service life, thus increasing the value of the asset.
2. **Total project cost -** All costs required for the implementation of an investment project, including the costs of equipment needed for its functioning, should, therefore, include the total financial resources required to achieve the planned outcome/product of the investment project when determining the total cost of the project, regardless of funding source (state budget funding, donors funds, loans and/or contributions of the beneficiary). In the case of public-private partnership projects, it may also imply the value of all liabilities (including contingent liabilities) assumed by the state.
3. **Final beneficiary -** End-user of a new or improved product and/or service delivered through a public investment project.
4. **Project pre-selection / appraisal -** a process by which a preliminary assessment of a project’s strategic case, rationale, budgetary impact affordability and viability is made. This constitutes the first stage in the PIM process and involves preparing a project concept note and a preliminary cost-benefit analysis as a basis for decision-making.
5. **Project appraisal / selection –** A process of making decision through other ways of cost-benefit analysis of the project and/or feasibility study defined by the Inter-Agency Commission, which ensures the identification of the project with the highest social and economic outcomes (Including doing nothing) (maintaining the existing situation)).
6. **Project prioritization / selection -** a process of selecting the most feasible option through comprehensive analysis and developing recommendations for final decision making, in accordance with the principles set out in this Guideline.
7. **Project concept note -** An outline of the project concept prepared at pre-selection stage, after project identification and before a decision to undertake an in-depth feasibility study.
8. **Feasibility study** - an analytical study prepared at appraisal stage, combining technical, economic and financial, as well as environmental and social assessments of a project proposal and carried out to reach conclusions on the overall feasibility and sustainability of a potential capital investment project.
9. **Cost-benefit analysis (CBA) -** quantitative assessment of costs and benefits of the project in monetary terms on the basis of alternative cost estimation.
10. **Cost-Effectiveness Analysis (CEA) –** determination of envisioned results of the project and choosing a project strategy to deliver them that minimizes total discounted capital and recurrent costs. This method is used where it is difficult or costly to place a monetary value on benefits or for choosing between alternatives that will deliver the same or very similar benefits/outputs. CEA can also take the form of calculating the cost per unit of output (that is, the non-monetized benefit).
11. **Net present value (NPV) -** sum of the discounted annual values of the net benefits of a Project (benefits minus costs).
12. **Internal Rate of Return (IRR)** - discount rate that gives an NPV of zero for a particular set of annual net benefits. This is the rate, which equalizes the sum of the discounted costs and the sum of the discounted benefits.
13. **Benefit cost ratio -** The ratio of total discounted benefits over a project’s life to total discounted costs.
14. **Environmental impact assessment (EIA) -** Consistent with the meaning defined by Georgian Legislation and prepared in accordance with the Georgian Legislation.
15. **Social impact assessment** - an assessment of a project’s potential negative and positive social consequences, such as effects on income distribution, poverty, unemployment, gender equality and others. A social impact assessment looks at who loses or gains from a project rather than the total value to society of the losses and gains (these are captured through the social cost-benefit analysis).
16. **Opportunity cost** - the value of a resource in its best alternative use. In economic analysis, the opportunity cost of a purchased input to a project is its marginal social value in its best alternative use (not related to the project), or its value in use (measured by willingness to pay) if it is a final good or service.
17. **Shadow price –** the opportunity cost of a good or service, which can be different from its market price or a regulated tariff. Shadow prices are used in economic analysis to better reflect the real resource costs to society and the real benefits of the outputs.
18. **Resource Cost –** the true economic cost of a good or services. It differs from a ‘cost’, such as a tax or customs duty, which is not a cost to the economy as a whole, but merely a transfer payment from one group of society to another.
19. **Externalities -** a cost or benefit of a project which does not accrue directly to the entity undertaking the project (that is, it cannot be reflected in the financial accounts because there is no market valuation) and which cannot be directly attributed to the project in terms of financial flows. Externalities can be both positive and negative.
20. **Cost-effectiveness** - a project is evaluated by how low the project cost is to achieve a satisfactory quality;
21. **Efficiency** – evaluates resources used in the project in relation to the outcome / product;
22. **Effectiveness -** evaluates how successful the project's outcome / product is. It may take some time to obtain sufficient evidence of project effectiveness.
23. **Discounting** - the process of reducing future values of costs and benefits for reflecting the value which is given to the costs and benefits in comparison to the existing value. „Discounting rate” is an annual rate similar to the negative interest rate, on the basis of which future costs and benefits are reduced in order to determine comparable current values. For the purposes set forth in this Guideline, the discounting rate is defined by the Inter-Agency Commission set forth in this Guide.
24. **Inter-Agency Commission** - Commission set up by the Government of Georgia for the selection of investment projects, which makes decisions set out in this guideline at various stages of the investment project.
25. **Working Group** - a Working Group set up by the Minister of Finance of Georgia, which conducts the analysis of an investment project at various stages of the project life cycle, within the scope of the competence of the Ministry of Finance of Georgia defined by this Guideline, maintains a single register of investment projects and monitors compliance with the procedures set out in this guideline.
26. **Public and Private Partnership Project -** a project that complies with the principles of the Law of Georgia on Public-Private Partnership for the relevant stage of project implementation;
27. **Price-quality ratio -** defined by the Law of Georgia on Public- Private Partnership;
28. Price Quality Method - defined by the Decree of the Government of Georgia №426 of August 17, 2018, "On the Approval of the Rule for the Development and Implementation of Public-Private Partnership Projects”.

**Chapter II**

**Project Pre-Selection / Appraisal Stage**

**Article 4. Key Concept and Goal of the Project Pre-Selection / Appraisal Stage and Mechanism for Revealing a New Project**

1. Project pre-selection / appraisal is a process by which an overall assessment of the project's strategic objectives, rationale, viability and budgetary impact is made.
2. The goal of the project pre-selection process is to exclude such projects, which are not consistent with the priorities of the Government or a particular sector, region or municipality, or which are probably not cost-effective and/or are less effective from economic point of view due to budget constraint.
3. The pre-selection process ensures:
4. Determination of the project's rationality in terms of logistics, risk and sustainability;
5. Exclusion / rejection of alternatives not suitable for the project and identification of suitable alternatives for further consideration.
6. Possible mechanisms through which a new project can be identified:
7. Obtaining information on the condition and remaining service life of specific state assets through the asset management systems and identifying those assets that will require a replacement / modification in the nearest future;
8. Priority fields for public investment will be revealed through various regional and sectoral strategic plans, which will contribute to the identification of the Project;
9. Identification of specific projects and their priority sequencing is possible through general plans developed for the major fields of infrastructure;
10. Involvement of relevant stakeholders, including local communities.
11. The pre-selection process includes preliminary assessment of the project's strategic importance, validity and impact on the social environment and the budget.
12. The pre-selection stage allows examining various options for addressing a given problem/issue and to shortlist several options, one of which is to examine what the outcome will be if the project is not implemented.
13. The start of the project pre-selection / appraisal process is not directly related to the budget cycle and can be initiated at any time of the fiscal year. As a rule, this process shall start as soon as the problem is identified by the people responsible for responding to the problem and allow adequate time to analyze the project and its alternatives. The pre-selection phase of the project shall normally begin at least one year before the start of the fiscal year in which the project is considered to be implemented, however, depending on the scale and complexity of the project, a longer or relatively shorter period may be required.

**Article 5. Project Concept Note**

1. In order to carry out the pre-selection procedure, a project concept note (PCN) shall be prepared for each project alternative (at least for the main alternative and "No-Action" alternative), which includes key project information. The preparation of the Project Concept Note shall not be perceived as an additional and particularly complex task. The format of this document allows for standardization of the process that is carried out with respect to every project at its initial stage, by project initiators and potential implementers;
2. The information in the „Project Concept Note” shall be based on internal analysis and reasoning. It entails building consensus around the project and considering the specifics of the project (scale, complexity, etc.), it is advisable to involve both the relevant sector-specific technical expertise and specialized project analysts. Depending on the content of the project, building consensus on a project also involves consulting with relevant external stakeholders, as well as those within government, and this should be reflected in the preparation of the PCN.
3. During the course of preparing the PCN, some project concepts may be dropped as it becomes clear that they do not meet the pre-selection criteria. It is normal, therefore, that some PCNs will be begun, but not completed. This should not be viewed as a waste of time and resources, but as a saving in terms of further project development costs.
4. Methods used during the feasibility study of the project at the pre-selection stage and additional methods that may be required if the project moves to the final selection/appraisal stage shall be indicated in the Project Concept Note.
5. The Project Concept Note shall include at least the following information:
6. Basic information about the project and its executor;
7. The essence of the project, intervention logic, evaluation of the need for and requirement of the project implementation;
8. Project Compliance with Strategic Documents;
9. Costs of the project and its alternatives and assumptions related to their calculations;
10. Assumptions about the benefits of the project and its alternatives and their measurements;
11. Impact of the project on the budget;
12. The economic effectiveness of the project and its alternatives to one beneficiary and to other similar projects already implemented;
13. Possible procurement arrangements, including potential for Public-Private Partnership
14. Other specifics related to project implementation;
15. Approach to studies required for the final selection of the project.

**Article 6. Steps to be taken in the Methodological Approach to Project Pre-Selection / Appraisal**

1. Based on the content of the project, a feasibility study methodology shall be selected, however, economic analysis usually requires a cost-benefit (financial and economic) method; the initiator prepares a preliminary version of this analysis;
2. An analysis period must be decided upon, over which the benefits and costs of the reference project will be assessed. The analysis period should normally correspond to the useful life of the fixed asset created.

**Table №1:** Analysis Periods for Project by Sector

| **Sector** | **Year** |
| --- | --- |
| Railway | 30 |
| Roads | 25-30 |
| Ports and airports | 25 |
| Urban Transport Infrastructure | 25-30 |
| Municipal transport facilities | 15-25 |
| Water supply and sewage system | 30 |
| Waste management | 25-30 |
| Energy | 15-25 |
| Broadband transmission | 15-20 |
| Business Infrastructure | 10-15 |
| Other sectors | 10-15 |

1. Cost-benefit analysis is the core element of a project appraisal because it provides a means to assess the economic viability of a project and to rank project alternatives to facilitate the efficient allocation of resources. When conducting cost-benefit analysis:
2. The most important part is to make assumptions as accurate as possible;
3. An important part of project appraisal is demand analysis. Demand analysis is crucial for making appropriate engineering or other types of decisions on a capital asset so that the capacity (capability) of the capital asset is sufficient for current and future customers in order to make reliable project cost and profitability projections.
4. In the project appraisal process, initiators shall develop preliminary forecasts of demand for specific services received as a result of the project, reflected in figures, including a forecast of the growth of this demand during the project period. Depending on what kind of project we are dealing with, such prognostic indicators may be: school enrollment rate, hospital load, traffic intensity, water consumption, solid waste generation, and more.
5. Demand forecasting detalization level can vary depending on the scale of the project or how new the project is by its content. Overly optimistic demand forecasts are the reason for poor decision making on public investment. Avoid bias as much as possible. It is recommended to check the demand forecasts by independent external entities, especially in case of large scale projects.
6. When conducting a cost-benefit analysis, the costs and benefits of an investment project is evaluated in economic terms, looking beyond the narrower effects on the financial position of the operating entity to include costs and benefits to the society, as a whole including those for which there are no directly observable market prices. These costs and benefits are identified, valued, analyzed and ranked according to net economic benefit. Table №2 illustrates the key differences between financial and economic cost-benefit analysis.

**Table №2: Key differences between financial and economic cost-benefit analysis**

|  | **Financial analysis** | **Economic analysis** |
| --- | --- | --- |
| **Perspective** | Implementing agency / organization / company | Economics / Society |
| **Goal** | Analyze the net financial impact of the proposal on the implementing organization | Maximize social benefits of used economic resources |
| **Prices** | Market prices | Alternative Cost / Estimated Prices |
| **Taxes and subsidies** | Considered | Not considered |
| **Effect of asset / allocation** | Not considered | May be considered; normally, a qualitative assessment is conducted |
| **Externalities** | Not considered | Considered |
| **Depreciation** | Not considered (discounted in cash flow analysis but considered in financial statements) | Not considered |

1. In addition to cost-benefit analysis, cost-effectiveness analysis may be also used for economic analysis.[[2]](#footnote-2)
2. Cost-Effectiveness Analysis is particularly applicable to projects with strong community or social welfare objectives the benefits of which may be difficult to value in monetary terms. It expresses the benefits in physical units rather than in monetary units (if the monetary value of the project's product cannot be estimated).

**Article 7. Economic Analysis at Pre-Appraisal stage**

1. There are three stages in an economic analysis:
2. Identify Relevant Costs and Benefits:

**a.a.)** The main types of relevant costs and benefits should be identified. Evaluations should be based on the additional cost to the budget of undertaking the particular project. Costs that would have been incurred anyway should be excluded. The stream of costs should cover the life of the proposed investment item.

**a.b.)** The degree of accuracy in identifying costs will vary with the significance of the project and the availability of data. Assumptions underlying all capital and recurrent cost estimates should be made explicit in the evaluation, including assumptions regarding, for example, real labor costs, real energy costs, demand growth or real charges/rates.

**a.c)** It is important that estimates of costs be undertaken on a consistent basis to enable meaningful comparisons to be made between alternative options. Also, the valuation of costs should be on the same basis as benefits. Benefits should be valued in monetary terms wherever possible, e.g. by using actual market prices. Often some notional financial measures will be available, but in some cases, the valuation may be excessively expensive. Therefore, the budget organization shall determine the complexity of the analysis taking into account the scale and content of the project.

**a.d.)** Multipliers, which measure the secondary or indirect effects of a project on the economy, should not be included as benefits in an economic analysis.

a.e.) Requirements for environmental and social analysis/impact assessment should have been identified at pre-selection stage. Environmental and social costs and benefits should be identified, valued and included in the calculation of costs and benefits as part of the economic analysis, wherever possible. If this is not possible every effort should be made to quantify costs and benefits (in terms of their scale and the number of beneficiaries) and to introduce them qualitatively into the analysis.

**a.f.)** Depending on the content of the project, the other dimension of environmental and social analysis relates to assessing differential impacts on certain ecosystems/localities or groups in society distinguished by geography, social status, income, ethnicity, gender, etc. In assessing a project and its alternative options, these differential impacts must be looked at separately from the net effect on society as a whole, because they may fall disproportionately on one group or another, and this will need to be taken into account when reaching a final decision on feasibility.

**a.g.)** If certain environmental or social costs/disbenefits fall unacceptably heavily on a particular ecosystem or group, it may be necessary to identify suitable mitigation measures in order to make the project environmentally or socially sustainable. The costs of mitigation measures as well as any amelioration they deliver in aggregate should be part of the economic analysis.

**a.h.)** Aspects defined by the subparagraphs (a.f.) and (a.g.) of this paragraph may not be considered at the pre-appraisal stage and may be assessed at the final selection / appraisal stage if the project moves to the next stage, given the complexity of the project.

**b)** Value relevant costs and benefits

**b.a.)** Basic principles for valuing costs and benefits are:

**b.a.a.)** **Proportionality:** Depending on the nature of the project, valuing costs and benefits can be resource-intensive, requiring surveys and in-depth analytical work. It is not generally expected, therefore, that the same depth of research and analysis will be carried out for a project costing, say, GEL 5.0 million as for a project costing, say, GEL 50.0 million.

**b.a.b.) Incremental Benefits and Costs:** Costs and benefits should be estimated incrementally by reference to the do-nothing alternative. This means that relevant costs are those in excess of what would be spent in the absence of the project and relevant benefits are those received in excess of what would be delivered in the absence of the project.

**b.a.c.) Use of market prices:** While adjustments may often have to be made, the default assumption is that market prices are the best starting point for valuing costs and benefits.

**b.a.d.) Use of real prices:** Benefits and costs must be expressed in real terms. Benefits and costs should be valued in the prices of a common base year, which must be declared in advance to all analysts and decision-makers. The base year is usually the current year.

**b.a.e.) Adjustment for taxes, subsidies and transfers which are likely to materially affect the choice of preferred alternative:** Indirect taxes (VAT for example), subsidies and social transfers (social security benefits, for example) do not entail the consumption or creation of economic resources, but merely represent the redistribution of resources from one part of society to another (from households to government and from government to households). As such, they should, in theory, be excluded from the valuation of costs and benefits.

**c) Calculate Net Present Values**

**c.a.)** Net present value is the difference between the streams of costs and benefits of a project, both discounted to present value. The concept of net present value is used to facilitate comparison between project alternatives with different profiles of costs and benefits.

**c.b.)** Discounting takes account of the fact that initial investment costs are borne up front, while benefits and/or operating costs may extend far into the future. Discounting reflects the concept of social time preference of money which is relevant even in the absence of inflation. The calculation of the present value requires the use of a discount rate.

**c.c.)** In a Cost-Benefit Analysis, Net Present Value (NPV) is the preferred decision criterion. A project is viable if the Net Present Value is greater than zero; i.e., the total discounted value of benefits is greater than the total discounted costs. For Cost-Effectiveness Analysis, Net Present Cost (NPC) is the key decision criterion used to rank projects on the basis of cost and to show the lowest cost alternative.

**c.d.)** Cost-Benefit Analysis focuses on looking at the dimensions of project that can be expressed in monetary terms. There may be significant costs/disbenefits and benefits that cannot be monetized. Often these are social effects or environmental externalities.

**Article 8. Roles and Responsibilities of Key Players and Decision-Making in Project Pre- Selection Stage**

1. The initiator and reviewer of the project proposal at the pre-selection stage of the project is the relevant economic entity and its structural unit and budgetary organization responsible for solving the problems identified in the relevant field. The head of an economic entity is responsible for overseeing the preparation of a Project Concept Note (PCN) and preliminary analysis of a feasibility study describing the parameters of a project. The Project Concept Note and the preliminary analysis of the feasibility study (usually cost-benefit analysis) are prepared with the active involvement of the budgetary unit of the economic entity. The head of an economic entity may delegate the responsibility for preparing the necessary documents to its subordinated structural unit or the head of the budget organization.
2. A project will be submitted to the head of the budgetary organization after it has undergone an internal evaluation by the budgetary unit of the economic entity.
3. The head of the relevant budgetary organization decides to submit the project to the Ministry of Finance of Georgia, after reviewing the project concept note, preliminary analysis of the feasibility study of the project, and the opportunity of financing the project during the estimated period of project implementation.
4. The budgetary organization shall submit project concept notes and preliminary analysis of feasibility study to the Ministry of Finance of Georgia.
5. Working Group, established by the Minister of Finance of Georgia at the Ministry of Finance of Georgia, shall:
6. Reflect the project in the Investment Projects Register;
7. Review the project concept note and preliminary analysis of the feasibility study of the project;
8. When reviewing the project-related documentation, the Working Group shall, if necessary:
9. Request additional information from economic entity;
10. Require consideration of an additional alternative;
11. In case of disagreement with the economic entity regarding the correctness of the assumptions, prepare an alternative feasibility study;
12. Invite the project initiator or representative and / or field expert of other project-related economic entities to participate in the work of the working group;
13. Perform the work of the Working Group within the timeframe and in the manner specified by the working group regulations;
14. Upon the completion of pre-appraisal of the project, the Working Group shall submit a report on the project to the Inter-Agency Commission and reflect the relevant status in the Investment Projects Management Register;
15. The work group's conclusion shall include a discussion of the project and reflect one of the work group's positions:
16. Agree to the submitted project based on the results of the existing assumptions and cost-benefit analysis;
17. Do not agree to the submitted project based on the results of the existing assumptions and cost-benefit analysis;
18. The composition of the Inter-Agency Commission shall be determined by the Government of Georgia.
19. The Inter-Agency Commission shall review the report submitted by the Ministry of Finance of Georgia and the position of the economic entity and request additional information as needed;
20. The Government of Georgia is authorized to use the evaluation criteria and scoring system approved by it for evaluation and selection of projects.
21. The Inter-Agency Commission shall submit to the initiating economic entity a report on the feasibility of moving to the next stage of the project review and shall define the methods of technical-economic analysis to be submitted for the next stage of selection.
22. The Working Group shall indicate the relevant status of the initiated project in the Investment Projects Register;
23. Anticipated decisions are: "Accepted", "Rejected" or "Needs to be resubmitted for further consideration".
24. The project pre-selection stage is considered to be completed after being approved to move to the Appraisal / Selection Stage by the budgetary organization.
25. The Pre-selection decision may be made any time in the budget calendar.
26. Sharing of projects and related documentation with the Ministry of Finance of Georgia and the Inter-Agency Commission can be done via email or other electronic carriers.

**Chapter III**

**Project Final Appraisal and Selection Stage**

**Article 9. Key Concept and Goal of the Project Final Appraisal and Selection Stage**

1. Project appraisal is a process for assessing the potential socio-economic benefits and budgetary impacts of the proposed project, as well as the social and environmental impacts, depending on the project content.
2. At the project appraisal stage, by taking into account available data and resources, it is important to specify and define in detail:
3. What is the objective of the proposed project;
4. Whether there are better ways of achieving the given objective in comparison with the proposed project;
5. Whether there are some other ways to make better use of resources to be used for the proposed project.
6. At the project appraisal stage, all the effects associated with an investment project are identified, including the specification of the results of the pre-valuation stage, and costs and benefits are valued in monetary terms.

**Article 10. Methodological Approach to Project Appraisal**

1. At the project appraisal stage, the preliminary evaluation of the project is updated and additionally analyzed by different methodological approaches;
2. **Define the Project Objectives and Scope:**

a.a.) This is a review and confirmation of the project concept note (PCN) as defined in the pre- selection stage. This includes a review of the project rationale, the project’s strategic case and a description of the project goal, purpose, results /outputs and activities (actions to deliver outputs).

a.b.) The strategic relevance of the project is a central component of the PCN and a core criterion for the Pre-Selection decision. It will be important to verify the continued strategic relevance of the project to take account of any changes of policy direction that may have occurred at Government, Ministry or Municipality level. The strategic case for the project as set out in the approved PCN should therefore be reviewed.

a.c.) Once the problem and rationale for government intervention are justified, it is important to have a clear statement of the objectives of the project so that appropriate alternatives for achieving these can be considered.

a.d.) For appraisal, the scope of the project described in the PCN must be reviewed and given more detail. This involves setting out all the project outputs/results (i.e., what will be delivered by the project upon completion) and the main activities required to accomplish these outputs.

1. **Identify and Choose Project Alternatives for Appraisal:**

b.a.) Project appraisal involves reassessment of project alternatives in order to carry out the cost-benefit analysis of the project in case of its implementation, over the lifetime of the project. Project promoters should refine the alternatives that have been shortlisted in the Pre-Selection Stage and should consider introducing new alternatives that may not have been considered at Pre-Selection. These options will then undergo further analysis in the Feasibility Study. An analysis period must be decided upon, over which the benefits and costs of the reference project and those of its alternatives will be assessed. The analysis period should normally correspond to the useful life of the fixed asset created.

1. **Define Demand for the Services of the Project:**

c.a.) At this stage of project evaluation it is important to specify a demand analysis.

c.b.) In the process of project evaluation, project promoters shall update a quantified forecast of the expected demand for the defined services of the project, in figures, including the expected growth in this demand over the lifetime of the project.

c.c.) The level of detail in demand forecasts may vary depending on the scale of the project.

1. **The economic analysis shall be carried out in accordance with the principle laid down in the pre-appraisal stage, including the need to specify all assumptions and data and to provide more detailed assumptions;**
2. **Other methodological approaches may also be used in the economic analysis, including those required by the Ministry of Finance of Georgia and / or the Inter-Agency Commission at the pre-appraisal stage;**
3. **Other analyzes that may be performed during the appraisal / selection stage:**

**f.a.) Risk Analysis and Risk Management Planning:**

f.a.a.) The extent and nature of the risk analysis should be commensurate with the nature of the issues involved. The NPV calculation in economic analysis was performed as if the underlying values of benefits and costs are certain. In the real world, these values will be uncertain due to unavoidable measurement and estimation errors and due to perfectly reasonable assumptions not turning out as anticipated. The quantified economic analysis is therefore not complete without a systematic analysis of the risks behind a project and an assessment of their likelihood and impact.

f.a.b.) A risk is an uncertain event or condition that, if it occurs, has a positive or negative effect on a project. Risks exist as a consequence of uncertainty concerning key parameters of a project (e.g., cost, implementation time, demand for services, etc.).

f.a.c.) Risk analysis may begin at Pre-Selection Stage with the drawing up of the PCN, but it will be extended to quantitative risk analysis as part of project final selection/appraisal. Quantitative analysis of risk may involve sensitivity analysis and/or the calculation of switching values. For high complexity and innovative projects, a relatively higher level of quantitative analysis is required, which involves the measurement of uncertainty attaching to critical parameters (for example, cost, time and demand estimates) and the probabilistic combination of individual uncertainties to arrive at an expected outcome for the project.

f.a.d.) Risk management involves the formulation of management responses to the main risks. The response is to alter the project plan so that the identified risks are mitigated or removed. The contingency response is to make provision in the project plan for actions to be implemented only if any of the identified negative risks should materialize.

f.a.e.) Risks can be categorized as follows:

f.a.e.a.) Construction risk - Asset not completed on time, to budget or to specification;

f.a.e.b.) Demand risk - Demand for services does not meet forecasts;

f.a.e.c.) Design risk - Design cannot deliver services at the required performance or quality standards;

f.a.e.d.) Economic risk - Project costs or benefits affected by economic influences, e.g., inflation or exchange rate movements;

f.a.e.e.) Environmental risk - Negative environmental impacts cause major objections from Public;

f.a.e.f.) Funding risk - Availability of funding delays project or changes scope;

f.a.e.g.) Legislative risk - Changes in legislation increase costs, e.g., tightening of environmental standards;

f.a.e.h.) Operation & maintenance risk - Costs of operating and maintaining new facility differ from planned budget;

f.a.e.i.) Procurement risk - Shortfall in capacities of contractors or contractual disputes;

f.a.e.j.) Technological risk - Services provided using non-optimal technology because of rapid technological change.

**f.b.) Affordability and Sustainability Analysis -** An initial identification of the preferred project option will be made on the basis of the results of the economic analysis using the NPV or the net present cost (for cost effectiveness). Other things being equal, the project with the highest NPV (lowest NPC) should be preferred as a preliminary position. Quantitative economic analysis alone presents limitations, because it does not capture potentially significant costs and benefits that cannot be monetized and because if does not consider the vital issue of project sustainability. It is for this reason that in order to arrive at the final decision about the preferred option the Feasibility Study needs to be completed by undertaking the following steps:

**f.b.a.) Financial Analysis of the Project to Determine Financial Profitability and Sustainability:**

f.b.a.a.) Determines whether the project will contribute positively to the financial objectives, and whether it is sustainable over the longer term. This analysis is particularly important for projects where the public-private partnership method is used;

f.b.a.b.) Financial analysis is applicable to revenue earning projects, for example: Investment by public sector energy and water utilities or by public transport operators. For non-revenue earning projects, for example, in the health, education, justice and roads sectors, a meaningful financial analysis may not be feasible and therefore may not be required. However, some important financial issues should be investigated for non-revenue projects.

**f.b.b.) Financial Analysis of the Operating Entity to Assess its Financial Sustainability:**

f.b.b.a.) The need for the project is determined in relation to the costs. This is important when the project is implemented by the state or municipal enterprise or following the implementation of the project it was transferred to the private sector. Financial analysis of the operating entity looks at its financial strength as a whole and at its capacity to meet negative cash flow requirements of the project, if any, and, by inference, the extent and timing of any requirements for subsidies from the State budget.

f.b.b.b.) Usually, a capital investment project will be carried out by an existing entity, which will be performing other on-going operations. In these cases, the financial analysis of the entity as a whole will be relevant to assessing financial sustainability (especially important when the project is implemented by the state enterprises). Sometimes a project is carried out in isolation and a new entity is created (e.g. State Enterprise) to operate it. In these cases, the two dimensions of financial analysis effectively merge into one.

**f.b.c.) Budgetary Analysis of the Project:**

f.b.c.a.) The impact on the budget will be determined with respect to the maximum volumes of appropriations. Budgetary analysis must be performed for all projects to determine the net impact on the national budget during implementation and operation, and to assist in establishing whether an investment is affordable from the fiscal perspective. Budgetary analysis enables affordability to be assessed in relation to projections of expenditure ceilings and available fiscal resource during budget preparation.

f.b.c.b.) Costs for budgetary impact analysis must be in current prices. Economic entities promoting projects must use projections of the medium-term macro-fiscal parameters or must consult with the Ministry of Finance on inflation forecasts, taking into account the need and project duration.

f.b.c.c.) A full budgetary analysis can be employed to estimate the total budgetary impact in present value terms (whether it is overall positive). This is wider in its perspective than the financial analysis (but not as wide as economic analysis) because it takes account of all direct and indirect financial flows that impact the public finances and not just those that affect the projects operating entity. Full budgetary impact analysis should only be prepared for major projects with significant direct revenue earning potential or substantial tax effects.

**f.b.d.) Assessment of the Environmental and Social Sustainability of the Project:**

1. Depending on the nature of the project, environmental and social sustainability of the project may be determined and any significant risks that could threaten sustainability may be identified.
2. The notion of sustainability extends beyond financial and budgetary sustainability. Project appraisal should also verify that projects are, on balance, environmentally sustainable and that they do not have unduly unbalanced impacts on different groups in society that could put into question their social sustainability. Decision-makers will therefore need to be provided with adequate evidence on the environmental and social sustainability of a project and made aware of any significant risks that could threaten sustainability.
3. Infrastructure projects frequently have significant environmental and social impacts arising from construction and operation. Depending on the scale and nature of the project, and the likely importance of these effects, a formal environmental impact assessment and/or social impact assessment might be necessary.
4. In cases defined under the Georgian Legislation, Environmental Impact Assessment (EIA) report is prepared according to the rules and procedures determined by the Georgian Legislation.
5. Preliminary assessments[[3]](#footnote-3) will need to be conducted early in the Appraisal Stage and prior to completion of the Feasibility Study so that the findings can be incorporated in the quantified economic analysis and broader feasibility assessment. Once identified, significant environmental and social benefits and costs should be accounted for in monetary terms at the economic analysis stage, where feasible. Failing this they should at least be identified in quantitative or qualitative terms and their relative importance compared to monetized benefits and costs as assessed at the economic analysis stage.
6. The current guideline is not intended to provide comprehensive guidance on conducting environmental and social impact assessments. Economic entities promoting projects are advised draw on external expertise to carry out such assessments where they are required by law or are indicated because of an expectation of significant impacts. The relevant Ministry shall be consulted where necessary.
7. **Identification of the Preferred Project Alternatives and Preparation of Recommendations for Decision-Makers:**
8. Includes the determination of the feasibility of the project on the basis of a quantitative analysis taking into account the relative importance of costs and benefits.
9. Involves identifying the preferred alternative on the basis of a comprehensive appraisal of all factors and arriving at a decision on whether or not to proceed with a project proposal. This decision must be based on a balanced evaluation of the findings of the analyses performed above.
10. In addition to quantitative economic analysis, the determination of the economic viability of a project should also consider intangible benefits and costs that cannot be monetized. The environmental and social impact of the project, i.e., upon which ecosystems or groups in society the costs and benefits fall, also needs to be considered. The sustainability of the project from a number of different perspectives, both during implementation and during operation, also needs to be confirmed.
11. Project promoters should decide, on the basis of the quantitative economic analysis, whether the project as conceived is preferred over the alternatives considered including doing nothing. In making this decision, the robustness of the quantitative economic analysis should be taken into account.
12. A 2-stage appraisal process is recommended for a project for which it has been possible to estimate the NPV:
13. Define a position on the economic viability of the project according to quantified economic analysis;
14. Adjust this position depending on whether or not the affordability and sustainability factors contribute to the implementation of the project, and taking into account the relative importance of costs and benefits that may not have been captured in monetary terms, but which have been analyzed qualitatively at the project's environmental and social sustainability assessment stage.
15. Findings and recommendations of the above analysis should be presented in a project appraisal summary.
16. If all the above mentioned analyzes are carried out, recommendation should be made based upon the findings with respect to economic viability combined with the findings on risk, affordability, sustainability and non-monetized effects. When the findings from the economic analysis and from affordability and sustainability/intangibles analysis all point in the same direction, the recommendation can be safely presented. If the risk, affordability and sustainability analyses and economic analysis point in different directions, then the final recommendation must be carefully presented giving a full explanation of the reasoning and the relative weights given to the different factors in arriving at the final conclusion.
17. In the case of projects subject to Cost-Effectiveness Analysis, the decision should be made based on which of the project alternatives is likely to be the most efficient, i.e., delivers a unit of output at lowest expected cost. In reaching a final conclusion on whether to proceed with the preferred alternative, an informed position on the scale of benefits in relation to costs must be defined, either implicitly or explicitly when a view is reached on the relative importance of the non-monetized benefits assessed qualitatively. This is important when deciding whether the least-cost option, once identified, represents a better use of public finances than doing nothing at all.

**Article 11. Additional Stage of Project Appraisal in Case of Public-Private Partnership**

1. In the project appraisal process, an implementation agency shall identify the most feasible method of procurement, which may include a public-private partnership if the project has characteristics that are favorable to this procurement approach.
2. If an economic entity is considering a procurement option in the case of a public-private partnership project, further steps need to be undertaken at the Appraisal Stage in order to evaluate the desirability of this option. For this purpose, economic entities considering the PPP procurement option should be guided by the laws and regulations applicable to the public-private partnership project. They should carry out a Value for Money (VfM) analysis to assess the feasibility of a public-private partnership project option over the traditional public procurement option.
3. When examining possible procurement options, the following should be checked together with other elements during pre-testing:
4. A comparison of the finance, construction and operation costs in each alternative method of procurement over the entire lifetime of the project;
5. The existence of sufficient interest from potential private investors with a good track record of service delivery and the level of competition in the market;
6. Whether the risks of the project can be clearly defined, identified and measured and whether the right types of risk can be transferred in to the private partner;
7. The possibility of covering all or part of the contractual payments to the private sector partner from end user charges;
8. Assessment of the scale of the project to justify the transaction costs associated with the public-private partnership project.
9. If the results of the procurement option pre-test suggest that it is feasible to carry out a public-private partnership procurement option, then the choice of this modality shall be considered and the process shall continue under the public-private partnership legislation;

**Article 12. Roles and Responsibilities of Key Players and Decision-Making in Project Appraisal Stage**

1. Contingent on a positive pre-selection decision, responsible economic entity carries out the project appraisal process.
2. Appraisal stage involves the preparation of the feasibility study, development of preliminary engineering solutions and implementation of other supporting studies (based on the nature of the project), such as, for example, environmental and social impact studies.
3. Depending on the scale and complexity of the project and on the expertise required, this work may be carried out in-house or contracted out.
4. Circumstances and conclusion identified during the appraisal stage must be considered by the economic entity.
5. The senior management of the economic entity is responsible for making a final appraisal decision on the worth of the project.
6. In case of a positive appraisal decision by the head of the economic entity, the project shall be submitted to the Ministry of Finance of Georgia.
7. The Ministry of Finance of Georgia shall, together with the Working Group, review the results of the project appraisal and analysis of funds needed to finance the project in relation to existing fiscal resources;
8. If the basic assumptions of the project presented at the appraisal stage and the results of the feasibility study (including cost-benefit and/or other analysis) do not differ substantially and do not change the results obtained at the pre-selection stage, the Ministry of Finance of Georgia shall authorize the economic entity to move the project to the next stage.
9. If the total cost of the project is increased by more than 20% compared to the cost of the project at the pre-appraisal stage and/or the **positive net present value (NPV)** in the revised valuation is negative and/or **IRR level** is reduced by more than 3 percentage, the Ministry of Finance of Georgia is authorized to return the project with a negative conclusion to the initiating authority or submit it to the Interagency Commission for further consideration;
10. In case of a negative conclusion by the Ministry of Finance of Georgia, the initiating economic entity may submit the project to the Inter-Agency Commission for further consideration.
11. If the Inter-Agency Commission, on the basis of paragraphs 9 or 10 of this Article, issues a positive conclusion on the project submitted for final selection, the project moves to the next stage of implementation;
12. If the Inter-Agency Commission, on the basis of paragraphs 9 or 10 of this Article, issues a positive conclusion on the project submitted for final selection, the project review shall be terminated;
13. In case of a negative conclusion made pursuant to paragraph 12 of this Article, the initiating economic entity may submit the project to the Government of Georgia for consideration.
14. In case of a negative conclusion issued by the Government of Georgia on the project submitted on the basis of paragraph 13 of this article, the project is terminated, and in case of a positive conclusion, the project moves to the next stage of implementation.
15. The Working Group of the Ministry of Finance of Georgia ensures the update of the status of the project in the list of investment projects.
16. Sharing of projects and related documentation with the Ministry of Finance of Georgia and the Inter-Agency Commission can be done via email or other electronic carriers.

**Chapter IV**

**Project Reflection in Budget and in Medium-Term plans**

**Article 13. Key Concept and Goal of Reflecting the Project in Budget and Medium-Term Action Plans**

1. The goal of the project selection and budgeting stage is to select those projects that will be funded from the budget of the particular medium-term period.
2. Following a positive decision by the Ministry of Finance of Georgia and/or the Inter-Agency Commission, the project shall be reflected in a unified list of investment projects (hereinafter referred to as "the list"), which shall be reflected in the Country's Basic Data and Directions Document by the Government of Georgia;
3. The economic entity shall be entitled, in view of the marginal volume of appropriations provided for it in the medium term, to include the project in the list in the medium-term budget application of the relevant years;
4. Financing of a project for which a resource can be obtained upon final selection of the project (for example: with funds or additional resources in the budget of the relevant year) and not yet reflected in the list endorsed by the Country's Basic Data and Directions Document, may be carried out in accordance with the procedure established by the legislation of Georgia. Such a project will be reflected in the list when further updating the Country's Basic Data and Directions Document.

**Article 14. Roles and Responsibilities of Key Players and Decision-Making in the Process of Reflecting the Project in the Budget and Medium-Term Action Plans**

1. Roles and responsibilities of key players in the process of reflecting the project in the budget and medium-term action plans shall be defined in accordance with the Georgian Budget Code and the public financial management legislation. Detailed information related to the investment project is reflected in the relevant medium-term capital budget project.

**Chapter V**

**Project Implementation and Monitoring**

**Article 15. Key Provisions of Project Implementation**

1. Investment projects will be implemented in accordance with the Law of Georgia on State Procurement and the Georgian Legislation.
2. In case of donor-funded projects or an international tender, project must be implemented in accordance with the procedures agreed with donors.

**Article 16. Project Monitoring and Roles and Responsibilities of Key Players in this Process**

1. Progress reports on the status of capital investment projects to be prepared periodically (quarterly and annually) and submitted to the appropriate authority responsible for the project.
2. Progress reports must include at least the following:
3. Name of the project;
4. Start date of the project;
5. Approximate date of completion;
6. Percentage of works that have been completed;
7. Source of funding;
8. Planned budget and expenditures;
9. Explanations for project delay, reduced or increased expenditures, financing and construction-related issues and planned measures.
10. Reporting on projects funded from the state budget to be carried out within the time frame specified in the Budget Code and to be submitted to the Parliament of Georgia together with the quarterly and annual progress reports.
11. In the case of the projects to be implemented by municipalities and autonomous republics, the information referred to in paragraph 2 of this Article shall be submitted to the Ministry of Finance of Georgia within one month of the end of the quarter and two months after the end of the year;
12. The Ministry of Finance of Georgia shall, in the format of the Working Group, review the information received pursuant to paragraphs 1 to 4 of this Article and shall, where necessary, submit a summary report to the Inter-Agency Commission.
13. The Ministry of Finance of Georgia submits the progress report to the Inter-Agency Commission if the Working Group, given the progress dynamics, reveals significant delays in the project implementation schedule or sees other types of significant risks to the project implementation.
14. After reviewing the information received pursuant to paragraph 6 of this Article, the Inter-Agency Commission may discuss the issue and make the recommendation for suspension, modification or termination of the project, if challenges occurred during the implementation phase (possibly due to reasons not directly related to the project) substantially change the resource estimates required for the investment project implementation, time frames and/or the effect of the acceptable outcome of the project on the users.

**Chapter VI**

**Ex-Post Evaluation**

**Article 17. Objectives of Ex-Post Evaluation and Main Provisions**

1. Ex-Post Evaluation - achieved objectives of the project are evaluated in terms of the used resources and environmental impact.
2. The ex-post evaluation has the following primarily goals:
3. Increase transparency by showing the effectiveness of the investments in relation to the reached financial, economic, environmental and social objectives;
4. Measure the effectiveness - the actual outcomes are compared with the forecasted ones or the achievements are compared with initial objectives in order to give a measure of the utility of the project;
5. Provide elements to improve the ex-ante assessments of future interventions - ex-post evaluation based on the reassessment of ex-ante appraisal is extremely informative and useful for understanding whether the conceptual forecasting model adopted before project implementation was adequate to support the investment decision. Furthermore it allows understanding where the efforts in improving the quality of project appraisals should be addressed;
6. Collect relevant information on similar to determine conceptual forecasting model and to support more accurate ex-ante assessments.
7. The major goal of ex-post evaluation is not to discover deviations. The understanding of the causes behind the deviations is the real target of the ex-post evaluation. Deviations identified at ex-post evaluation stage may indicate that not enough attention was paid to the possible unintended impacts (including external and partly internal unforeseen factors) at the initial stages of the project life cycle. Deviations may be caused by the project design, false information, ineffective decision and other general issues.

**Article 18. Ex-Post Evaluation Steps**

1. The path of a correct ex-post evaluation includes five steps. There are manifold challenges for each step. These steps are:
2. **Evaluate Planning Process -** It is important to evaluate ex-ante assessment and planning processes. It is difficult to determine exactly which analysis contributes to the decision-making at the ex-ante assessment stage. When the project documentation is not available or is incomplete, as well as in case of insufficient official documentation on the ex-ante assessment results and planning process, a transparent analysis of ex-post evaluation is complicated.
3. **Measure of the Project Outcome -** Collect ex-post information about projects performances is in general costly, so that it is important to concentrate on the main indicators and to use standard approaches. There is a danger that some of the important impacts of a project may not be covered by the stated objectives. An effective way to investigate on the possible cause of discrepancies between ex- ante and ex-post results is to interview experts.
4. **Comparison of the Project Outcomes with the Expected Outputs -** Determination of discrepancies between the observed outcomes and those expected in the appraisal stage and especially identification of the causes of such discrepancies is in fact an irrelevant concept, since in most cases expected outputs could never be identical to the observed outcomes. Even in those cases where no critical differences emerge, it is not possible to automatically conclude that the ex-ante appraisal methodologies were adequate and that no mistakes were done, since it may occur that exogenous factors which were not considered in the appraisal stage may have generated outcomes similar to those expected.
5. **Alternative Analysis –** Analysis is based on the ex-post evaluation. Analysis needs to look at the “after” opening situation against “after-without” the scheme. Study of differences between the ex-post and ex-ante assessment is important for comprehensive analysis of the project. The analysis may not include some projects that were implemented, but on the contrary - it may include some of the planned projects that were actually not implemented.
6. **Identify Endogenous or Exogenous Factors -** It is important to investigate whether the deviation between ex-ante and ex-post evaluations was caused by endogenous or exogenous factors. The effects of endogenous and exogenous factors are analyzed, which may not occur in case of not implementing the project, or an effect that may occur in case of project failure. This should be supplemented by qualitative research such as in depth interviews with stakeholders to understand and explain the observed changes.
7. **Costs Evaluation –**is one of the critical steps of ex-post evaluation. The methods used to obtain costs and the reasons behind the divergences between expected and actual costs are investigated. The main factors to be considered are: delays in the implementation, changes in the project specifications and design, changes in currency rates, changes in quantity and prices, changes in safety requirements, changes in environmental requirements, geological and technological risks.
8. **Project Evaluation -** An analysis of the differences between the observed outcomes and those expected in the appraisal stage from the decision-making process point of view, which involves the examination of aspects of the development and implementation of the project and focus on the strengths and weaknesses of procedures. During this process, it can be revealed that relatively "better" objectives have not been implemented. The project is also assessed for environmental impact if the project has played a proactive part in the project development process by considering funding that can be studied through stakeholder engagement as well as public consultation.
9. **Measure the Effectiveness of the Investment -** Impact of the project on economic welfare on the basis of the observed outcome and outturns. Actual economic performance indicators (IRR and NPV) are recalculated through considering the actual outcomes and costs in order to compare them with the expected ones.

**Article 19. Ex-Post Evaluation and Roles and Responsibilities of Key Players**

1. Within 1 year after the completion of the capital investment project budgetary organization will submit the ex-post evaluation report to the Ministry of Finance of Georgia.
2. The Ministry of Finance of Georgia shall, in the format of the Working Group, review the documentation received and request additional information as necessary.
3. Depending on the specifics of the project, in order to evaluate the effectiveness of a project, the Ministry of Finance of Georgia may assign an additional obligation to the budgetary organization to submit a project performance evaluation report, but not later than four years after the project completion.
4. The Ministry of Finance of Georgia shall, in the format of the Working Group, review the information received under paragraphs 1 to 3 of this Article and prepare a summary report every two years;
5. The Ministry of Finance of Georgia shall, if necessary, submit a summary report to the Inter-Agency Commission.
6. The Ex-Post Evaluation report shall be submitted to the Inter-Agency Commission by the Ministry of Finance of Georgia If the Working Group identifies factors within the Summary Report that may have a significant impact on the quality of ongoing and planned projects.
7. After reviewing the information received pursuant to paragraph 6 of this Article, the Inter-Agency Commission may discuss and make a recommendation on specifying separate regulations in the process of management of investment projects or on systematic updating of these processes.

1. The World Bank has developed a diagnostic framework for PIM, which provides a systemic view over each of the steps of the public investment cycle. The framework is designed to assist government units with responsibility for PIM to ensure that there are no loopholes that can affect the quality of capital spending. The framework identifies “eight must-have” features of the PIM cycle with corresponding desirable institutional arrangements for each stage to provide a degree of assurance that there are no systemic shortcomings and that public monies are used efficiently and effectively. The eight features are: project screening/pre-selection, project appraisal, independent review of appraisal, project selection/budgeting, project implementation, project adjustment, project monitoring, and ex-post evaluation. The World Bank's eight features framework will be used as a model, which was adapted in accordance with the Public Investment Management system in Georgia (both in terms of the legal framework and the actual practice) and was transformed into six features framework. It means that the ‘independent review’ function forms part of project appraisal and ‘project adjustment’ forms part of project implementation. For more detailed information on the World Bank PIM eight features, see the document: „The Power of Public Investment Management: Transforming Resources into Assets for Growth“, A. Rajaram, Tuan Minh Le, Kai Kaiser, Jay-Hyung Kim, and Jonas Frank, Directions in Development, World Bank, 2014. [↑](#footnote-ref-1)
2. It is sometimes referred to as social effectiveness analysis to emphasize the wider use of the term. [↑](#footnote-ref-2)
3. Assessments will need to be finalized when the detailed design of the project is completed following a positive appraisal decision. [↑](#footnote-ref-3)