Environmental Protection of
International River Basins Project

This project is funded by
The European Union

A project implemented by a Consortium
led by Hulla & Co. Human Dynamics KG

TERMS OF REFERENCE

Introducing Economic Instruments and Revenue Generation Mechanisms for Efficient Water Resources Management in Georgia

1. Background and Objectives

The consultant will assist Human Dynamics to fulfil its requirements under the EU technical assistance contract 'Environmental Protection of International River Basins (EPIRB)' (Terms of Reference given in Annex 1). The overall objectives of the EPIRB project are:

- To improve availability and quality of data on the ecological, chemical, and hydro-morphological status of trans-boundary river basins including groundwater; and

- To develop River Basin Management Plans for selected river basins / sub-river basins according to the requirements of the WFD.

The project is being implemented in six countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and five pilot river basins:

- Akhurian Basin District (Armenia),
- Central Kura (Azerbaijan),
- Upper Dnieper Basin (Belarus, Ukraine),
- Chorokhi-Adjaristskali Basin (Georgia),
- Prut Basin (Moldova, Ukraine)

As part of the River Basin Management Planning process the project will implement number of improvement measures from the overall Programme of Measures (PoM), as defined under the Water Framework Directive. The selected measures have been agreed with the beneficiaries in each country and will be executed in accordance with the EC contractual conditions on a basin-wide and national level.

One of such national-level measures in Georgia is facilitating government reforms for the efficient water resource management, more specifically – **Introducing Economic Instruments and Revenue Generation Mechanism**, including establishing a new strategy for water abstraction permits and fines for each pollutant, discharged with the wastewater into the surface waters, exceeding the national standards.

As Georgia signed an Association Agreement with the European Union in 2014, the country committed to the implementation of the EU Water Framework Directive that also includes more pro-active use of Economic Instruments that, among others, includes the following:

- A strategy for use economic instruments, including water pricing, to cover the costs of water services, including maintenance and development of state owned water resource and waste water treatment infrastructure; regulatory structures and services for water resources and water quality and ancillary environment protection and mitigation measures. Article 9 of the EU Water Framework Directive requests that costs associated with water services (including environmental and resource costs) are recovered. It states that water prices should provide adequate incentives for users to use water resources efficiently, and thereby contribute to the environmental objectives of the Directive. Water-pricing policies should also provide for an adequate contribution of the different water uses (industry, hydro-power, households, agriculture) to cost recovery, based on economic analysis.
- The development of river basin management plans. In the framework of the EU-funded pilot projects on transboundary river management, some draft river management plans were elaborated. These draft plans aim to strengthen the technical and legal basis for full-scale implementation of water resource management principles in the basins. But there is a risk that it is not financially sustainable because the implied costs exceed what Georgian public budgets, farmers, industries and households can afford. Economic analysis is needed to inject some financial realism in the plan.

To comply with these obligations, the 'Environmental Protection of International River Basins' project (EPIRB), jointly with the Organization of Economic Cooperation and Development (OECD) will launch a pilot project to assist the Government of Georgia on this.

The objective of this project is to support the beneficiary institution – Ministry of Environment and Natural Resources Protection of Georgia in strengthening the economic and financial dimension of water resources management. This will ensure that available financial resources are used in the most effective way. Information will be produced on the status of economic instruments (e.g. abstraction charges, pollution charges, water tariffs), their practical implementation at river basin level, and the conditions of the deployment. Lessons will be learned at national level, on the benefits of economic instruments for water resource management and it's financing.

The proposed project will: (a) review if and how economic instruments are being used for water resources management in Georgia, and (b) explore ways to strengthen their use to manage the demand for water, promote low costs options, and raise additional revenues for water policies at the basin level. This work will also look into some of the measures that can help to generate new sources of finance (e.g. payment for eco-system services) required to cover the costs related to water resource management in the basin (including costs related both to the service and to governance).

2. Scope of work

The work will consist of the following tasks:

- Review of the status of economic instruments in Georgia

Assess the status of economic instruments for water resource management in Georgia. In particular, the analysis will include what economic instruments are considered and used in practice for water resources management (e.g. abstraction charges, pollution charges, water tariffs, payment for watershed services), how they are designed and implemented. The analysis will assess how effective they are to promote water efficiency across different uses, promote low cost options, and generate revenues to cover the costs of water-related services and their administration.

Data will be collected through desk research (a review of existing documents in use at national level and in the basin), interviews with local stakeholders (on instruments in use, exemptions, etc.) and field observations.

- Ways to enhance the use of economic instruments to manage water resources in Georgia

Explore ways to strengthen the use of economic instruments so that they contribute to water demand management, promote low costs options, and raise additional revenues for water policies in the country. The benefits will be assessed, essentially on qualitative ground. When possible, quantitative estimates (e.g. on revenue generation potential, on potential savings on investment and operation costs, on affordability of different categories of users) will be provided.

The consultant will collect available information on user groups potentially affected by the reform. It will assess the potential impact of possible reform options on user groups. Furthermore, where data allows and to the extent possible, the consultant will assess impact on revenues from user charges, as well as fiscal impact of the proposed reform of economic instruments.

The consultant will assess the necessary steps for the reform. These are likely to include:

- Changes in relevant codes, to implement economic instruments and to earmark revenues (if appropriate);
- Changes in the regulatory framework, to ensure compatibility between economic instruments and other elements of water policies;
- Conditions for effective implementation, including required organizational and institutional changes (for instance, water use measurement; monitoring and enforcement; collection efficiency).

Evaluation of the existing and envisaged cost of regulatory framework to be cover by tariffs and strategy for their phased introduction as well as means for incentivising efficient water use. As part of the strategy the consultant will explore accompanying measures to be considered to facilitate reform. These could include: recycling parts of the revenues to finance transition towards, or investment in, water efficient technologies or practices; targeted social support to vulnerable users; education and training; awareness campaigns.

3. Project management and deliverables

The OECD Project Manager and EPIRB TL/DTL will be responsible for the overall planning and implementation of the project and quality control.

The work will be divided between the OECD and EPIRB in such way that **OECD Project Manager** oversees performance and deliverables of the International WRM expert, who will draft the final report with the input from the local expert(s). The International expert should provide his inputs in time and coordinate his work with the OECD Project manager, EPIRB TL/DTL and the Local expert to ensure meeting the project deadlines.

EPIRB TL/DTL will coordinate performance and deliverables of the local WRM consultant (NGO), who will be responsible for liaising with local authorities, collecting information (including on the field) on the situation in Georgia. The Local expert should also closely coordinate his work with the OECD Project Manager and the International WRM expert to ensure meeting the project deadlines.

The total duration of the pilot groundwater project will be 4 months. The expected commencement date of the assignment is **March 01, 2016** and the completion date - **June 30, 2016**.

Milestones of the deliverables and the schedule of the above work are given below:

Task	2016			
	Mar	Apr	May	Jun
Deliverable 1: Review of the status of economic instruments in Georgia and analysis of reform options/ways to enhance the use of economic instruments, including draft strategy				
Deliverable 2: Presentation of the draft Final Report				
Deliverable 3: Final Report (OECD/EPIRB) and draft final strategy (EPIRB)				

4. Remuneration and payment schedule

The local contractor – Georgia based WRM Consultant (NGO) will receive a maximum lump-sum of **XXXX Euro** for the above services to be paid in three (3) tranches per deliverables, as specified below. The sum will also cover all travel costs related to field missions (if needed).

Tranche 1 **30 % upon signature of the contract**

Tranche 2 **40 % after submission of the draft Final Report**
Subject of written approval by OECD Project Manager and EPIRB TL/DTL

Tranche 3 **30 % after completion of the assignment**
Subject of written approval by OECD Project Manager and EPIRB TL/DTL