



Project Administration Memorandum

Project Number: 42085
Loan Number: 2437-AZE
28 February 2009

Republic of Azerbaijan: Power Transmission Enhancement Project

(Financed under Ordinary Capital Resources)

*Baku, Azerbaijan
28 February 2009, Saturday*

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project or program changes.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 November 2008)

Currency Unit	–	Azerbaijan new manat/s (AZN)
AZN1.00	=	\$1.20
\$1.00	=	AZN0.8095

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
EMMP	–	environmental management and monitoring plan
ICB	–	international competitive bidding
LIBOR	–	London interbank offered rate
PCB	–	polychlorinated biphenyl
PMU	–	project management unit

WEIGHTS AND MEASURES

GWh (gigawatt-hour)	–	1,000 megawatt-hours
kV (kilovolt)	–	1,000 volts
kWh (kilowatt-hour)	–	1,000 watt-hours
MVA (megavolt-ampere)	–	1,000 kilovolt-amperes
MW (megawatt)	–	1,000 kilowatts
MWh (megawatt-hour)	–	1,000 kilowatt-hours
V (volt)	–	unit of voltage
kV (kilovolt)	–	1,000 volts
MVA (megavolt-ampere)	–	1,000 kilovolt-amperes
MW (megawatt)	–	1,000 kilowatts

NOTES

- (i) The fiscal year of the Government and its agencies ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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LOAN PROCESSING HISTORY

Item	Date
a. Approval of project small-scale technical assistance	17 March 2008
b. Fact-finding mission	5–15 May 2008
c. Management review meeting (MRM)	2 July 2008
d. Appraisal mission	Waived
e. Loan negotiations	16–18 July 2008
f. Board circulation	20 August 2008
g. Board consideration	10 September 2008
h. Management approval	10 September 2008
i. Loan agreement signing	13 November 2008
i. Loan effectiveness, including conditions (include available dates)	26 January 2009

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KEY PERSONS INVOLVED IN THE PROJECT

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I. PROJECT DESCRIPTION

A. Project Area and Location

1. The Project is a priority investment project under the state program on the development of the fuel and energy sector in the Republic of Azerbaijan. It will construct a double-circuit 220 kilovolt (kV) transmission line from Mingechevir hydropower plant to Absheron substation, to replace the existing two single-circuit 220 kV transmission lines (Mingechevir 1 and 2), which have been used for about 60 years. The Project will increase the capacity of the power transmission network in the west-to-east direction. This is crucial for ensuring the required stability of power supply to consumers in the key Azeri industrial and economic hub closest to the capital city of Baku.

2. The project components comprised of: (i) construction of a double-circuit 220 kV transmission line of 280 kilometers (km); (ii) construction of Agdash substation with installation of two 125 megavolt-ampere (MVA) transformers and associated 110 kV transmission lines near Agdash substations; (iii) expansion of Absheron substation; (iv) project management support; and (v) institutional strengthening.

B. Project Impact and Outcome

3. **Impact:** Improved power transmission system that provides reliable and adequate electricity to support economic development.

4. **Outcome:** The project outcome will be an expanded and strengthened backbone 220 kV power transmission and distribution network, with transmission bottlenecks removed by 2012 and losses reduced.

C. Project Outputs

5. The design and monitoring framework is in Appendix 1. The outputs of the Project are summarized below:

(i) **220 kV Transmission Line.** Construction of a new 220 kV double-circuit transmission line from Mingechevir hydropower plant to Absheron substation with a total length of about 280 km. The new transmission line will increase the transmission capacity by 300 MW, remove the bottlenecks of backbone transmission network, and reduce the transmission losses.

(ii) **Agdash Substation (220/110 kV).** Construction of a new 220/110 kV substation at Agdash and installation of two sets of auto transformers, each with a capacity of 125 MVA, switches, breakers, protection, communication and control devices, and associated 110 kV transmission lines in the vicinity area of the substation. The new substation and associated 110 kV lines will provide reliable and adequate power supply to meet growing electricity demand in the central part of the country including Akhsu, Ujar, Geokchai, and Kurdamir regions.

(iii) **Expansion of Absheron Substation (500/330/220 kV).** Installation of one unit of transformer with capacity of 400 MVA and breakers, to provide reliable and adequate electricity power to consumers in the Absheron industrial and economic hub and improve the power service quality.

- (iv) **Project Management Support.** International consultants will be engaged to assist Azerenergy in procurement and bidding for the tendering of design, supply, and installation contracts; implementation supervision; and other capacity building support.
- (v) **Institutional Strengthening.** The Project will strengthen Azerenergy staff capacity through providing on-the-job training on transmission and substation operation and maintenance, environmental management, and social safeguard implementation.

II. FINANCING PLAN

A. Financing Plan

6. Azerenergy (the Borrower), a state owned enterprise has requested a loan of \$160 million from Asian Development Bank's (ADB) from its ordinary capital resources to help finance the Project. The Government of Azerbaijan provided the sovereign guarantee. The foreign exchange risk will be borne by the Azerenergy. Azerenergy will finance the remaining costs including consulting services, local taxes and duties, interest during construction, and contingencies, from its own resources of an estimated \$80 million. The summary of the financing plan for the Project is shown in Table 1 and detailed in Appendix 2.

Table 1: Financing Plan

Source	Amount (\$ million)	%
Asian Development Bank		
Ordinary Capital Resources	160.0	67
Azerenergy ^a	80.0	33
Total	240.0	100

^a Includes value added tax, other taxes and duties, price contingencies, and interest during construction.

Source: Asian Development Bank estimates.

B. Allocation of Loan Proceeds

7. The allocation of loan proceeds by category and related percentages of ADB financing is given in Table 2 below:

Category		ADB Financing Basis		
Number	Item	Total Amount Allocated for ADB Financing [\$]		Percentage of ADB Financing from the Loan Account
		Category	Subcategory	
1	Works (Turnkey contract)	157,200,000		
1A	220 kV substation "Agdash"		21,400,000	100 percent of total expenditure claimed*
1B	220 kV transmission line		117,600,000	100 percent of total expenditure claimed*

**Table 2: Allocation and Withdrawal of Loan Proceeds
(Power Transmission Enhancement Project)**

Category		ADB Financing Basis		
Number	Item	Total Amount Allocated for ADB Financing [\\$]		Percentage of ADB Financing from the Loan Account
		Category	Subcategory	
1C	Substation "Absheron" upgrading		9,700,000	100 percent of total expenditure claimed*
1D	Dismantling Work and Local transportation		8,500,000	100 percent of total expenditure claimed*
3	Unallocated	2,800,000		
	Total	160,000,000		

*Exclusive of taxes and duties imposed within the territory of the Borrower.

III. IMPLEMENTATION ARRANGEMENTS

A. Executing Agency (EA)

8. Azerenergy is the executing agency (EA). Organization chart is shown in Appendix 3.

B. Project Management Unit (PMU)

9. Azerenergy will set up a project management unit (PMU), headed by a project manager and staffed by specialists in technical, financial, procurement, social, and environmental matters. The PMU will report to the chief engineer or deputy president of Azerenergy. The PMU will be responsible for day-to-day project implementation, comprising procurement, contract supervision and management, project social and environmental management, and project financial management, including project accounting, financial reporting, loan disbursements, and arrangements for external audits. Relevant international practices and standards will be adhered to in the implementation of the Project. Detailed construction and installation drawings will be available under the Project and will be in line with specifications in the engineering, procurement, and commissioning contracts. The PMU organization chart and role and responsibilities is attached as Appendix 4.

IV. IMPLEMENTATION SCHEDULE

10. The Project will be implemented for about 3 years. Physical works are expected to be completed by 31 December 2011 (Schedule 1, para. 3, Loan Agreement) and the loan utilization period will be up to 30 June 2012 (loan closing date, Article III, Section 3.07). Detailed engineering designs, surveys, investigations, will start in the fourth quarter of 2008. The civil works are expected to commence in the second quarter of 2009. The project implementation schedule is in Appendix 5.

V. CONSULTANT RECRUITMENT

11. Consulting services is required for project implementation support and capacity development. Key tasks includes: (i) procurement and bidding for the tendering of plant design, supply, and installation contracts; (ii) supervision of construction, testing and commissioning, and quality assurance; (iii) monitoring of project implementation and performance; and (iv) capacity development. The capacity development component will involve project management and monitoring activities, including safeguards monitoring and evaluation, and training on transmission system operations, and maintenance. The outline terms of reference for project implementation consultants are in Appendix 6. Azerenergy financed the consultancy services entirely from its own resources, and engaged the consultant in accordance with its procedures acceptable to ADB. The contract with MVV Decon GmbH, Germany was signed on 27 May 2008 for Euro 700,000, for 38 months starting November 2008 to December 2011.

VI. PROCUREMENT PLAN

12. The following table provides an indicative list of all procurement (goods, works, and consulting services) over the life of the Project. Contracts financed by the Borrower and ADB is indicated in the comments section.

Indicative List of Packages Required Under the Project

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Prequalification of Bidders (yes/no)	Comments
Turnkey contract	\$167 million	1	Internal Competitive Bidding ICB)	No	ADB: \$157.2 million Azerenergy: \$10 million
Consulting Services	\$1.1 million	1	International, Single source selection	FTP	Financed by Azerenergy

13. The single plant (turnkey) contract for construction of the transmission line and substation facilities will be awarded using ICB following ADB's standard bidding document: single-stage bidding procedure. ICB procedures will be followed for civil work contracts costing \$3 million equivalent or more. Contracts estimated at less than \$3 million will be awarded using national competitive bidding under Azerbaijan's Public Procurement Law of 27 December 2001 and acceptable to ADB. The procurement plan will be updated at least annually, covering the next 18 months of procurement activity. The procurement plan is in Appendix 7.

VII. DISBURSEMENT ARRANGEMENTS

14. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

VIII. AUDITING REQUIREMENTS

15. Azerenergy agreed to adhere to sound financial management requirements during implementation of the Project. Azerenergy will maintain separate project records and accounts adequate to identify the (i) goods and services financed from the loan proceeds, (ii) financing resources received, (iii) expenses incurred on the components of the Project, and (iv) use of counterpart funds. Azerenergy will engage independent external auditors acceptable to ADB to audit project accounts and financial statements annually, and will arrange a periodic or annual audit of statement of expenditures transactions. Azerenergy will submit to ADB certified copies of audited annual project accounts and related financial statements as well as the auditor's report in English, including the proposed use of the imprest account and the statement of expenditures procedure, within **6 months** after the end of each financial year during implementation. Azerenergy was advised of ADB's requirement for timely submission of audited annual project accounts and financial statements, and the suspension of disbursements of the ADB loan in case of noncompliance with the requirements. A copy of Audit Letter is attached as Appendix 8.

IX. REPORTING REQUIREMENTS

16. **Quarterly Progress Reports (QPR).** Azerenergy will prepare and submit to ADB quarterly progress reports, which will include: (i) a narrative description of progress made during the reporting period, (ii) changes in the implementation schedule, (iii) problems or difficulties encountered; and (iv) activities and actions to be undertaken in the next reporting period. Proforma of the EA's Project Progress Report is also attached as Appendix 9. The progress report should contain an executive summary of the detailed report, with format and content pertaining to ADB staff to readily capture key information for inputting into the project performance report (PPR), the main tool for monitoring the project implementation performance within ADB. A copy of the PPR is attached as Appendix 10.

17. **Project Completion Report (PCR).** Azerenergy will prepare and submit to ADB a project completion report within 3 months of project completion. The format of the report is in Appendix 11

X. ASSURANCES

18. **Counterpart Support.** Azerenergy will make available the funds, facilities, services, land, and other resources, as required, for timely implementation and operation of the Project.

19. **Financial Management:**

- (i) Azerenergy will ensure that ADB is kept informed about the Government's announcement on the implementation of tariff policy reform, and it will implement the tariff policy in accordance with its terms and defined timetable, which will enable Azerenergy to achieve its full cost recovery of its operations by 31 December 2010.
- (ii) Within **6 months** following the end of each financial year, Azerenergy will submit to ADB (a) the international financial reporting standards consolidated financial statements of the company and its subsidiaries, audited by an international auditing firm acceptable to ADB, and (b) audited financial statements in respect of the Project.

- (iii) Within 3 months of the end of each financial year, Azerenergy will compute its debt service coverage ratio and gearing ratio for each such financial year, and submit these to ADB; and from the year 2012 onwards, Azerenergy will maintain the debt service coverage ratio of not less than 1.5, and the gearing ratio of not more than 70%.

20. **Environment.** Azerenergy will ensure that: (i) the Project is designed, constructed, and operated in accordance with Azerbaijan's applicable laws and regulations, ADB's *Environment Policy* (2002) and the initial environmental examination; (ii) any adverse environmental impacts are minimized by undertaking the mitigating measures detailed in the environmental management and monitoring plan (EMMP) as set out in the initial environmental examination; (iii) implementation of the EMMP and any violation of environmental standards are reported semiannually to ADB; (iv) the EMMP is incorporated in bidding documents and bills of quantities of the civil work contracts; (v) the EMMP is updated after detailed design and due diligence, with prior approval of ADB; and (vi) all environmental permits, licenses, and clearances are obtained in a timely manner prior to commencement of civil works in the relevant section of the Project.

21. Azerenergy will ensure that the handling of transformers and polychlorinated biphenyl (PCBs) adheres to the terms of the Stockholm Convention, of which the Government is a signatory, and with United Nations procedures for safe handling of PCBs. Azerenergy will ensure that the new transformers are filled with a nontoxic substitute for PCB. Azerenergy will coordinate the handling of transformers and PCBs with Ministry of Ecology and Natural Resources as the agency responsible for hazardous materials.

22. **Involuntary Resettlement.** Azerenergy will ensure that (i) the Project does not require any land acquisition or involuntary resettlement; (ii) the new transmission lines and towers follow the existing alignment and locations, respectively; (iii) before commencement of civil works, a detailed due diligence report is completed on potential social impacts and submitted to ADB for approval; (iv) in the event any land acquisition or resettlement becomes necessary, or any potential impact on indigenous peoples is identified, a suitable resettlement plan is drawn up in consultation with the affected people, and approval of ADB, in accordance with the applicable laws of the Republic of Azerbaijan, ADB's *Involuntary Resettlement Policy*, and *Policy on Indigenous Peoples*, and is implemented in accordance with its terms; (v) the existing houses under the transmission lines remain intact during project implementation; (vi) the construction is scheduled in the farm areas only during the nonagricultural season (June to September); and (vii) these provisions are incorporated suitably in the bidding documents and made part of the civil works contracts.

23. **Change of Ownership and Operation.** In the event a change is proposed: (i) in the ownership or control of the Project, Azerenergy will, at least 6 months prior to implementation of such a proposal, consult with ADB and obtain its consent; and (ii) in the ownership of Azerenergy, the Government will consult with ADB to ensure that it does not affect the implementation of the Project or the terms of the loan agreement.

24. **Government.** The Government will ensure that: (i) it remains committed to the implementation of the State Program on the Development of the Fuel and Energy Sector in Azerbaijan (2005–2015); (ii) it fully implements its medium-term tariff policy, which incorporates transition to full cost recovery for utility service providers by 2010; (iii) the distribution companies are required to make timely payments for 100% of the power received from Azerenergy; (iv) it provides financial support, as and when needed, to Azerenergy to enable it to fulfill its obligations under the loan agreement with ADB; (v) it causes Azerenergy to make available all counterpart funding and facilities; and (vi) its cabinet of ministers coordinates the work between

the Ministry of Economic Development, Ministry of Ecology and Natural Resources, Ministry of Industry and Energy, Ministry of Finance, and other government ministries/agencies for expeditious resolution of any issues, and timely implementation of the Project.

XI. MAJOR LOAN COVENANTS

25. In addition to the standard assurances, the Government agreed to the additional assurances, which will be incorporated in the Loan and Guarantee Agreements. The summary on status of compliance is shown in Appendix 12.

XII. ANTICORRUPTION

26. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with Azerenergy and the Government. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan regulations and bidding documents for the Project. In particular, all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of all contractors, suppliers, consultants, and other service providers as they relate to the Project.

27. The Government and Azerenergy agreed to take additional measures to improve governance, accountability, and transparency under the Project. These measures include (i) independent external auditing of contracts, project accounts, and financial statements; (ii) decisions on all procurement-related matters being taken by the tendering committee, which comprises representatives of the Ministry of Economic Development, Ministry of Finance, Ministry of Industry and Energy, and State Procurement Agency; (iii) verification of contractors' payment claims by the supervision consultant in accordance with contract specifications; (iv) timely disclosure of information on selection of consultants and contractors through local newspapers; and (v) publication of the status of procurements and awards of contracts on Azerenergy's website in accordance with ADB's *Procurement Guidelines*.

XIII. EXECUTION PLAN

28. Please refer to Appendix 13.

29. Annual Operational Plan

Not applicable.

XIV. PERFORMANCE MONITORING AND EVALUATION

30. **REPORTING:** The following reports should be provided to ADB by Azerenergy during project implementation

- (i) Quarterly Progress Reports (QPR) - by 31 April, 31 July, 31 October, 31 January of each year, including
 - Physical progress
 - Procurement status and progress
 - Contract awards and disbursements
 - Status of payment to contractors and consultants

- Environmental impact monitoring
 - Social impact monitoring
 - Status of loan covenants
- (ii) Updated environmental management and monitoring plan – by 31 October 2009
- (iii) Updated due diligence report on potential social impacts – by 31 October 2009
- (iv) Audited Financial Statements and Audited Project Accounts – by 30 June of the following year.
- (v) Project Completion Report – by 31 March 2012.

XV. PERFORMANCE INDICATORS

31. Physical

Impact	Targets/Indicators
<p>Outcome An expanded and strengthened backbone 220kV power transmission and distribution network.</p>	<ul style="list-style-type: none"> ▪ Transmission capacity of the 220 kV line from Mingechaur to Absheron increased by 300 MW by 2012. ▪ Distribution capacity of 220 kV substations increased by 650 MVA by 2012. ▪ Transmission losses reduced by 25 GWh per year, from 6% in 2007 to 3% in 2012. ▪ Annual average electricity outages in the project areas reduced from 8-10 times/year to 0.2 time/year by 2012. ▪ Technical requirements (voltage and frequency) for 220 kV transmission line from Mingechaur to Absheron are fully met by 2012.
<p>Outputs Construction of new 220kV double-circuit transmission line and substation.</p>	<ul style="list-style-type: none"> ▪ 280 km double-circuit 220 kV transmission line from Mingechevir to Absheron completed by end of 2011. ▪ New 220/110 kV Agdash substation completed by end of 2011 with installation of 2 sets of auto-transformers with a total capacity of 250 MVA and other equipments. ▪ Expansion of Absheron substation with installation of 1 set auto-transformer with a capacity of 400 MVA and other equipments. ▪ Erection of 110 kV transmission lines 50 km in vicinity areas of Agdash substation.

	<ul style="list-style-type: none"> ▪ Recommended social and environmental mitigation measures are well implemented. ▪ Implementation of Azerenergy operation improvement and training programs – at least 30 staff from regional offices and headquarters trained on project management, operation and maintenance, and social and environmental management and monitoring by 2011.
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XVI. CONCURRENCE

32. We have reviewed the Project Administration Memorandum and concur to implement the Project according to the agreed requirements

Mejid Aliyev
Advisor to President
Azerenergy Open Joint-Stock Company

Tianhua Luo
Energy Specialist /
Mission Leader

Signed on 1 March 2009
Baku, Azerbaijan

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved power transmission system that provides reliable and adequate electricity for sustained economic growth</p>	<p>Annual electricity supply in the project area increased by 1,000 GWh by 2012</p> <p>Annual average electricity outages reduced by 40 times, from 8–10 times per year to 0.2 times per year by 2012</p> <p>Transmission system operating and maintained in accordance with technical requirements by 2012</p> <p>Optimization of power generation resource use through increase of domestic hydropower production by 200 GWh and reduction of importation energy by 650 GWh by 2012</p> <p>Annual net CO₂ emission reduced by 1.3 million tons</p>	<p>Annual national statistics report</p> <p>Statistics regularly conducted by Azerenergy</p> <p>Project quarterly progress reports</p> <p>ADB project completion reports</p>	<p>Assumptions Macroeconomic growth remains stable</p> <p>Government remains committed to power sector reforms and development</p> <p>Planned transmission and generation projects commissioned</p>
<p>Outcome The capacity of the backbone 220 kV power transmission and distribution network is expanded and strengthened, with transmission bottlenecks removed and losses reduced</p>	<p>Transmission bottlenecks removed by 2012</p> <p>Power transmission capacity of the 220 kV grid increased by 300 MW in 2012</p> <p>Distribution capacity of 220 kV substations increased by 650 MVA by 2012</p> <p>Reduction of transmission line losses by 25 GWh, from 6% in 2007 to 3% in 2012</p>	<p>National economic and social statistics</p> <p>Azerenergy annual report, financial statement, and project account</p> <p>Project quarterly progress reports</p> <p>ADB review missions</p>	<p>Assumptions Government's high priority accorded to the Project</p> <p>Load growth and system expansion as forecast</p> <p>Improved institutional capacity</p> <p>Adequate maintenance of facilities</p> <p>Risk Delay in project implementation</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <ol style="list-style-type: none"> 1. Construction of a new double-circuit 220 kV transmission line 2. Construction of a new 220/110 kV substation in Agdash with adequate facilities 3. Expansion of Absheron substation 4. Construction of associated 110 kV transmission lines in the vicinity of Agdash substation 5. Capacity development activities for improving Azerenergy's performance 	<p>280 km double-circuit 220 kV transmission line from Mingechevir to Absheron</p> <p>Installation of two sets of autotransformers with a total capacity of 250 MVA, and other equipment</p> <p>Installation of one set of autotransformers with a capacity of 400 MVA, and other equipment</p> <p>Erection of 110 kV transmission lines in the vicinity of Agdash substation</p> <p>Recommended social and environmental mitigation measures are implemented well. Implementation of Azerenergy operation improvement and training programs</p>	<p>Azerenergy annual report, financial statement, and project account</p> <p>Project quarterly progress reports</p> <p>ADB review missions</p>	<p>Assumptions</p> <p>Timely provision of counterpart funding</p> <p>Azerenergy full cooperation with ADB and compliance with ADB's procurement and safeguard guidelines</p> <p>Procurement of high quality equipment and material</p> <p>Adequate project management</p> <p>Risks</p> <p>Unexpected increase in prices of commodities and raw materials</p> <p>Delay in procurement and recruitment of consultants caused by slow government approvals</p>
<p>Activities with Key Milestones</p> <ol style="list-style-type: none"> 1. Recruitment of project implementation consultants was signed on 27 May 2008. Completed. 2. Turnkey contract for civil works to be awarded by July 2009. 3. Submission of updated EMMP after signed contract with contractor has been completed. 4. Construction and installation of transmission facilities completed by end of 2011. 5. Capacity development program commenced by January 2009. 			<p>Inputs</p> <p>ADB: \$160 million Azerenergy: \$80 million</p> <p>Total: \$240 million</p>

ADB = Asian Development Bank, CO₂ = carbon dioxide, GWh = gigawatt-hour, km = kilometer, kV = kilovolt, MVA = megavolt-ampere, MW = megawatt.

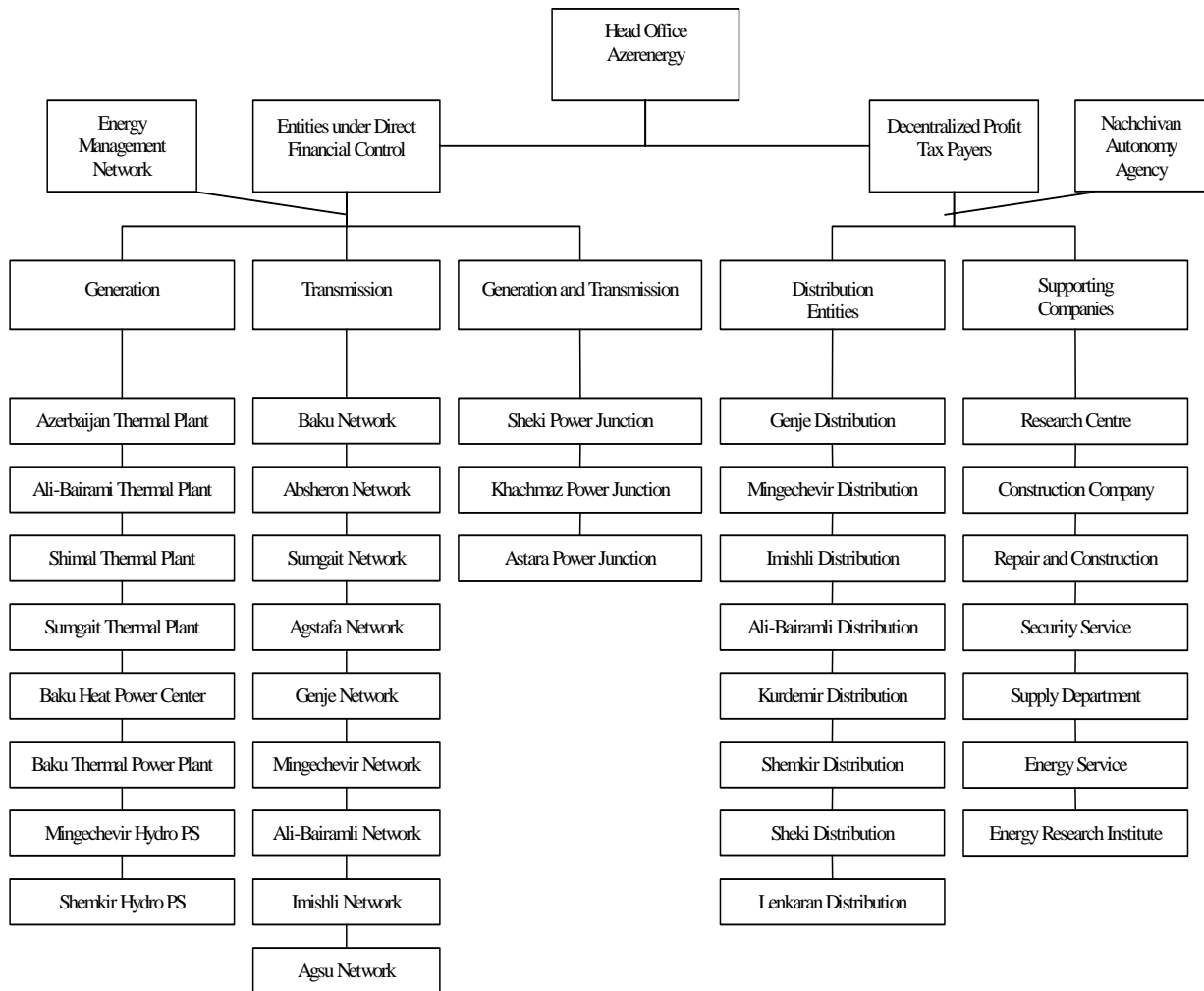
DETAILED COST ESTIMATES AND FINANCING PLAN
(\$ million)

	Total	ADB	Azerenergy
Base Cost			
1 Equipment and Materials	128.4	128.4	0.0
a 220kV Substation Agdash Construction	18.3	18.3	0.0
b 220kV Transmission Line Mingechevir 1 and 2	101.8	101.8	0.0
c 500/330/220kV Substation Absheron Upgrading	8.3	8.3	0.0
2 Civil Works	34.2	28.8	5.4
a 220kV Substation Agdash Construction	3.1	3.1	0.0
b 220kV Transmission Line Mingechevir 1 and 2	15.8	15.8	0.0
c 500/330/220kV Substation Absheron Upgrading	1.4	1.4	0.0
d Dismantling Works and Local Transportation	8.5	8.5	0.0
e Detailed Engineering Design	5.4	0.0	5.4
3 Consulting Services^a	1.1	0.0	1.1
4 Taxes and Duties	32.5	0.0	32.5
a VAT	31.6	0.0	31.6
b Customs Duties	0.9	0.0	0.9
Total Base Cost	196.3	157.2	39.1
Contingencies			
1 Price contingencies	26.7	0.0	26.7
2 Physical Contingencies	11.2	2.8	8.4
Total Contingencies	37.9	2.8	35.1
Interest During Construction	5.9	0.0	5.9
Total Project Cost (A+B+C)	240.0	160.0	80.0

^a Consulting services include environmental handling costs.

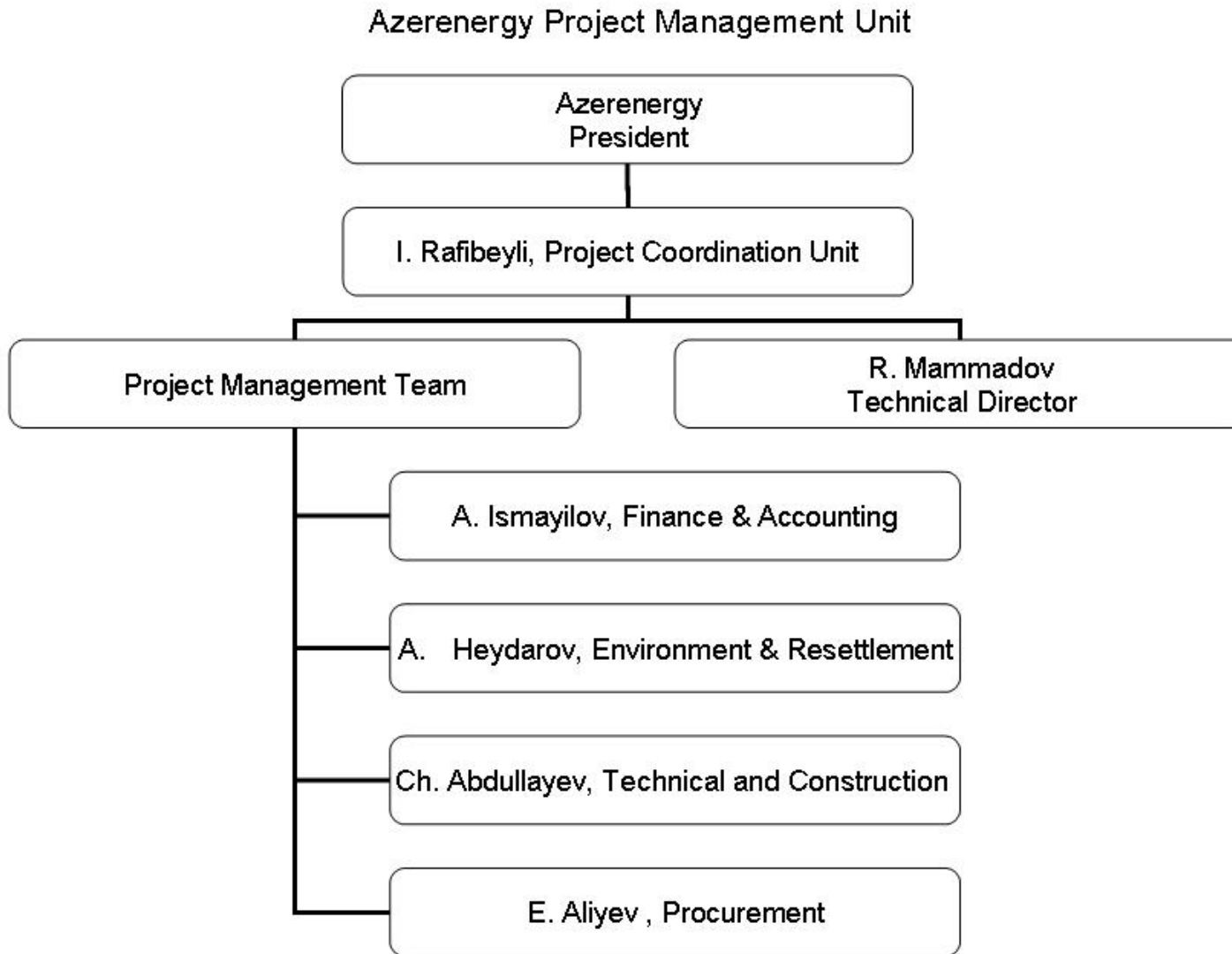
Source: Azerenergy and ADB estimates.

AZERENERGY ORGANIZATIONAL CHART



Source: Azerenergy Open Joint-Stock Company.

PROJECT MANAGEMENT UNIT ORGANIZATIONAL CHART



IMPLEMENTATION SCHEDULE

ID	Task	2008				2009				2010				2011				2012			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Loan Approval			◆																	
2	Loan Effectivity				◆																
3	Advance Procurement of Consultants			■																	
4	Appoint Supervision Consultants				◆																
5	Bidding documents preparation				■																
6	Procurement under Turnkey Contract					■															
7	Turnkey Contract Award								◆												
8	220 kV Transmission Line																				
	Detailed engineering design							■													
	Updating environmental and social impact assessment							■													
	Procurement of material and equipment							■	■	■	■	■	■	■	■	■	■				
	Civil works and installation *							■	■	■	■	■	■	■	■	■	■				
	Commissing and testing																■				
	Start of commercial operation																				◆
9	Agdash Substation																				
	Detailed engineering design							■													
	Procurement of material and equipment							■	■	■	■	■	■	■	■	■	■				
	Civil works and installation							■	■	■	■	■	■	■	■	■	■				
	Erection of associated 110 kV lines																■				
	Commissing and testing																■				
	Start of commercial operation																				◆
10	Expansion of Abshron Substation																				
	Procurement of material and equipment																■				
	Civil works and installation																■				
	Start of commercial operation																				◆
11	Institutional strengthening and on-job training					■	■	■	■	■	■	■	■	■	■	■	■				
12	Loan Closing																				◆

* construction in farmed areas only during the non-agricultural season (from June to September)

OUTLINE TERMS OF REFERENCE OF PROJECT IMPLEMENTATION CONSULTANTS

A. Introduction

1. Azerenergy Open Joint-Stock Company (Azerenergy) intends to construct a double circuit 220 kilovolt (kV) transmission line with a total length of 280 kilometers (km) between Mingechevir hydropower plant and the 500/330/220 kV Absheron substation to replace the two existing transmission lines used for 60 years. The Project consists of (i) construction of a double-circuit 220 kV transmission line of 280 km between Mingechevir hydropower plant and 500/330/220 kV substation Absheron; (ii) construction of the 220/110 kV Agdash substation, including installation of two 125 megavolt-ampere (MVA) transformers and other equipment; (iii) construction of 110 kV transmission lines near Agdash substations; (iv) expansion of the 500/330/220 kV Absheron substation and installation of one unit 400 MVA transformer and breakers; and (v) miscellaneous work, including project supervision, an environmental management program, and a compensation program.

2. A team of international consultants will be recruited by Azerenergy to assist with procurement, supervision of construction, final testing, and commissioning of the works; and improve the agency's project management capacity. The team will include transmission and distribution specialists, procurement specialists, contract management experts, and social and environmental management specialists. The consultants will perform the tasks in Azerbaijan with suitable head office backup, and improve the design and project supervision skills of Azerenergy staff; where possible, they will use local expertise.

B. Terms of Reference

3. A consulting firm will be engaged to carry out the following main tasks:

- (i) Review the existing feasibility studies for the Project and other relevant power transmission design documents. Prepare preliminary designs taking into account the design practices used by Azerenergy and current international standards.
- (ii) Prepare the scope of supply and technical specification of transmission and substation equipment, including spare parts and terms of reference for training operation and maintenance.
- (iii) Consolidate (i) and (ii) into a design report giving project details, costs, implementation schedule, and recommendations for mitigation of adverse environmental impacts for approval by Azerenergy and the Asian Development Bank (ADB).
- (iv) Prepare bidding documents for all equipment and services required to implement the Project, suitable for international competitive bidding, and local competitive bidding procedures as necessary and acceptable to the Government and ADB.
- (v) Assist Azerenergy in inviting suitable qualified bidders and evaluating bids, and awarding contracts.
- (vi) Review and approve the contractor's detailed design drawings and technical documents.

- (vii) Supervise construction of the project facilities and provide guidance to the contractors to conform with the specifications.
- (viii) Witness commissioning, guarantee, and acceptance tests; and assist Azerenergy in taking over the completed facilities.
- (ix) Review and compile “as-built” drawings, and review the operation and maintenance manuals provided by the contractors for accuracy and adequacy.
- (x) Assist Azerenergy to update and implement the resettlement and compensation plan, to provide capacity building to Azerenergy in environmental management and social safeguards as well as training to other agencies implementing resettlement at district and commune levels.
- (xi) The consultants will assist Azerenergy in implementing the environmental management and monitoring plan in accordance with the laws and regulations of the Government of Azerbaijan. This will include (i) preparing an implementation schedule for mitigation measures, based on the Project’s initial environmental examination (IEE); (ii) establish an environmental monitoring and reporting plan; and (iii) provide training for relevant government officers in the implementation of detailed environmental management plans.
- (xii) Prepare and submit an inception report and quarterly progress reports acceptable to ADB, and compile a project completion report in the format prescribed by ADB providing details of project implementation, problems encountered, solutions adopted, and detailing and explaining any variation in project costs and implementation times from the original estimates.
- (xiii) The consultant will monitor and evaluate the performance of the completed project by comparing a number of indicators prior to and after completion of the new transmission lines. The impact of the Project on Azerenergy’s operations will be monitored by evaluating data on electrical losses, sales loss through system breakdown, average cost of service, and monthly consumption by consumer category. The impact of the bulk supply distribution system will also be evaluated.

C. Reporting Requirements

4. Besides the design report, the consultants will provide a brief inception report within 4 weeks from the start of the assignment, a quarterly progress report within 15 days from the end of each quarter, and a project completion report at the end of the assignment. Three copies of these reports will be provided to Azerenergy, and three to ADB (two to Manila and one to the Azerbaijan Resident Mission).

D. Person-Month Estimates

5. A total of 90 person-months of international consulting, to be associated with about 100 person-months of local expertise, will be spread over 4 years, from the fourth quarter of 2008 to the end of 2011.

PROCUREMENT PLAN

Project Name: Power Transmission Enhancement Project	Loan Number: 2437
Loan Amount: \$160 million	Executing Agency: Azerenergy Open Joint-Stock Company
Date of first Procurement Plan: September 2008	Date of this Procurement Plan: September 2008

A. Process Thresholds, Review, and 18-Month Procurement Plan

1. **Project Procurement Thresholds.** Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Method	Threshold
International Competitive Bidding (ICB) for Works	\$3,000,000

2. **ADB Prior or Post Review.** Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

Procurement Method	Prior or Post	Comments
ICB Works	Prior	

3. **Goods and Works Contracts Estimated to Cost more than \$1 million.** The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value	Procurement Method	Prequalification of Bidders (y/n)	Advertisement Date (quarter/year)	Comments
Turnkey contract (design, procurement, and installation) including: (i) 220 kV transmission line (ii) 220 kV substation (iii) 110 kV lines (iv) Upgrading Absheron (v) Dismantling works (vi) Detailed engineering design	\$165 million	ICB works	No	Q4 2008	ADB: \$155 million Azerenergy: \$10 million

ADB = Asian Development Bank, ICB = international competitive bidding, kV = kilovolt, Q = quarter.

B. Project Procurement Plan

4. **Indicative List of Packages Required under the Project.** The following table provides an indicative list of all procurement (goods, works, and consulting services) over the life of the project. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the comments section.

General Description	Estimated Value (cumulative)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
Works: Turnkey contract (design, procurement, and installation) including: (i) 220 kV transmission line (ii) 220 kV substation (iii) 110 kV lines (iv) Upgrading Absheron (v) Dismantling works (vi) Detailed engineering design	\$165 million	1	ICB Works	No	
	Estimated Value (cumulative)	Estimated Number of Contracts	Recruitment Method	Type of Proposal	Comments
Consulting Services	\$1.1 million	1	International assignment, Single source selection	Full proposal	Finance by Azerenergy

ICB = international competitive bidding, kV = kilovolt.

C. National Competitive Bidding

5. **General.** The procedures to be followed for national competitive bidding (NCB) shall be those set forth in the Public Procurement Law of 27 December 2001 with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of ADB's *Procurement Guidelines* (2007, as amended from time to time).

6. **Eligibility.** No bidder or potential bidder should be declared ineligible for reasons other than those stated in section I of the *Procurement Guidelines*. Bidders must be nationals of member countries of ADB, and offered goods, services, and works must be produced in and supplied from member countries of ADB.

7. **Prequalification.** Normally, post-qualification shall be used unless explicitly provided for in the procurement plan. Irrespective of whether post-qualification or prequalification is used, eligible bidders (both national and foreign) shall be allowed to participate.

8. **Registration and Licensing.** The following procedures will be adhered to with respect to registration and licensing:

- (i) Bidding shall not be restricted to preregistered or licensed firms.
- (ii) Where registration or licensing is required, bidders (a) shall be allowed a reasonable time to complete the registration or licensing process; and (b) shall

not be denied registration or licensing for reasons unrelated to their capability and resources to perform the contract successfully, which shall be verified through post-qualification.

- (iii) Foreign bidders shall not be precluded from bidding. If a registration or licensing process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register or to obtain a license.

9. **Bidding Period.** The minimum bidding period is 28 days prior to the deadline for submission of bids.

10. **Bidding Documents.** Procuring entities should use standard bidding documents for the procurement of goods, works, and services acceptable to ADB.

11. **Preferences.** No domestic preference shall be given for domestic bidders and for domestically manufactured goods.

12. **Advertising.** Invitations to bid shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally known website allowing a minimum of 28 days for the preparation and submission of bids. Bidding of NCB contracts estimated at \$500,000 equivalent or more for goods and related services or \$1,000,000 equivalent or more for civil works shall be advertised on ADB's website via the posting of the procurement plan.

13. **Bid Security.** Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

14. **Bid Opening, Bid Evaluation, and Award of Contract.** The following procedures will be adhered to with respect to bid opening, bid evaluation, and award of contract:

- (i) Bids shall be opened in public.
- (ii) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.
- (iii) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
- (iv) No bidder shall be rejected on the basis of a comparison with the employer's estimate and budget ceiling without ADB's prior concurrence.
- (v) A contract shall be awarded to the technically responsive bidder that offers the lowest evaluated price, and meets the qualifying requirements. Negotiations shall not be permitted.
- (vi) Splitting of award, of a single contract, among two or more bidders shall not be permitted.
- (vii) Price verification shall not be applied.

15. **Rejection of All Bids and Rebidding.** Bids shall not be rejected and new bids solicited without ADB's prior concurrence.

16. **Disclosure of Decision on Contract Awards.** At the same time that notification of award of contract is given to the successful bidder, the results of bid evaluation shall be published in a local newspaper or a well-known freely accessible website, identifying the bid and lot numbers and providing information on (i) the name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) the name of bidders whose bids were rejected and the reasons for their rejection; and (iv) the name of the winning bidder and the price it offered, as well as the duration and summary scope of the contract awarded. The executing agency, implementing agency and contracting authority shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids are not selected.

17. **Participation by Government-Owned Enterprises.** Government-owned enterprises in Azerbaijan shall be eligible to participate as bidders only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

18. **Right to Inspect and Audit.** A provision shall be included in all NCB works and goods contracts financed by ADB, requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

19. **Fraud and Corruption.** The following provisions shall be adhered to with respect to fraud and corruption:

- (i) The Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for the contract in question.
- (ii) ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for, or in executing, ADB-financed contract.



Asian Development Bank

Central and West Asia Department

December 2008

President
Azerenergy
Republic of Azerbaijan
Through the ADB Resident Mission

Dear Minister _____:

**Loan 2437-AZE: Power Transmission Enhancement Project
—Financial Reporting and Auditing Requirements**

This letter is to ensure your timely compliance with the loan covenants and the quality of financial information as required by ADB. ADB's *Handbook for Borrowers on the Financial Governance and Management of Investment Projects Financed by the ADB* (the Booklet) is enclosed to guide you.

ADB, by its Charter, is required to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used for the purposes for which the loan was approved. ADB requires accurate and timely financial information from its borrowers to be assured that expenditure was for the purposes stated in the loan agreement.

For this particular loan, the requirements are stipulated in Article IV, Sections 4.01 (a and b), 4.02, 4.03, and 4.04 of the Loan and Guarantee Agreements dated _____ between ADB and the Republic of Azerbaijan. Copies of the Loan/Guarantee Agreements are enclosed for onward transmission by your office to your EA and the auditor(s), together with a copy of this letter.

The following are the main requirements:

- ADB requires the EA to maintain separate project accounts and records exclusively for the Project to ensure that the loan funds were used only for the objectives set out in the Loan or Project Agreements. The project accounts comprise the following:
- The first set of project accounts to be submitted to ADB covers the fiscal year ending 31 December 2009. As stipulated in the Loan and Guarantee Agreements, they are to be submitted up to 6 months after the end of the fiscal year. For this loan, the deadline is by 30 June 2010. A sample report format with explanatory notes, is attached as Annex A.
- The accounts and records for the project are to be consistently maintained by using sound accounting principles. Please stipulate that your external auditor is to express an opinion on whether the financial report has been prepared using international or local generally accepted accounting standards and whether they have been applied consistently.

ADB prefers project accounts to use international accounting standards prescribed by the International Accounting Standards Committee. Please advise your external auditor to comment on the impact of any deviations, from international accounting standards.

- Please ensure that your external auditor specifies in the Auditor's Report the appropriate auditing standards they used, and direct them to expand the scope of the paragraph in the Auditor's Report by disclosing the key audit procedures followed. Your external auditor is also to state whether the same audit procedures were followed for all supplementary financial statements submitted.

ADB wishes that auditors conform to the international auditing standards issued by the International Federation of Accountants. In cases where other auditing standards are used, request that your external auditor to indicate in the Auditor's Report the extent of any differences and their impact on the audit.

- The external auditor's opinion is also required on whether
 - the proceeds of the ADB's loan have been utilized only for the project as stated in the Loan Agreement;
 - the financial information contains data specifically agreed upon between Azerenergy Open Joint-Stock Company guaranteed by the Republic of Azerbaijan and ADB to be included in the financial statements;
 - the financial information complies with relevant regulations and statutory requirements; and
 - compliance has been met with all the financial covenants contained in the Loan or Project Agreements.
- The Auditor's Report is to clearly state the reasons for any opinions that are qualified, adverse, or disclaimers.
- Actions on deficiencies disclosed by the external auditor in its report are to be resolved within a reasonable time. The external auditor is to comment in the subsequent Auditor's Report on the adequacy of the corrective measures taken. Compliance with these ADB requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.

Yours sincerely,

Director
Energy and Natural Resources Division
Central and West Asia Department

attachments: a/s

cc: Mr. Faraj Huseynbeyov, Team Head, AZRM

PROFORMA OF THE EXECUTING AGENCY'S PROJECT PROGRESS REPORT

A. Introduction and Basic Data

Provide the following:

- (i) ADB loan number, project title, borrower, executing agency(ies), implementing agency(ies);
- (ii) total estimated project cost and financing plan;
- (iii) status of project financing including availability of counterpart funds and cofinancing;
- (iv) dates of approval, signing, and effectiveness of ADB loan;
- (v) original and revised (if applicable) ADB loan closing date and elapsed loan period based on original and revised (if applicable) loan closing dates; and
- (vi) date of last ADB review mission.

B. Utilization of Funds (ADB Loan, Cofinancing, and Counterpart Funds)

Provide the following:

- (i) cumulative contract awards financed by the ADB loan, cofinancing, and counterpart funds (commitment of funds to date), and comparison with time-bound projections (targets);
- (ii) cumulative disbursements from the ADB loan, cofinancing, and counterpart funds (expenditure to date), and comparison with time-bound projections (targets); and
- (iii) reestimated costs to completion, need for reallocation within ADB loan categories, and whether an overall project cost overrun is likely.

C. Project Purpose

Provide the following:

- (i) status of project scope/implementation arrangements compared with those in the report and recommendation of the President (RRP), and whether major changes have occurred or will need to be made;
- (ii) an assessment of the likelihood that the immediate development objectives (project purpose) will be met in part or in full, and whether remedial measures are required based on the current project scope and implementation arrangements;
- (iii) an assessment of changes to the key assumptions and risks that affect attainment of the development objectives; and
- (iv) other project developments, including monitoring and reporting on environmental and social requirements that might adversely affect the project's viability or accomplishment of immediate objectives.

D. Implementation Progress

Provide the following:

- (i) assessment of project implementation arrangements such as establishment, staffing, and funding of the PMO or PIU;
- (ii) information relating to other aspects of the EA's internal operations that may impact on the implementation arrangements or project progress;
- (iii) progress or achievements in implementation since the last progress report;
- (iv) assessment of the progress of each project component, such as,
 - recruitment of consultants and their performance;
 - procurement of goods and works (from preparation of detailed designs and bidding documents to contract awards); and
 - the performance of suppliers, manufacturers, and contractors for goods and works contracts;
- (v) assessment of progress in implementing the overall project to date in comparison with the original implementation schedule—quantifiable and monitorable target, (include simple charts such as bar or milestone to illustrate progress, a chart showing actual versus planned expenditure, S-curve graph showing the relationship between physical and financial performance, and actual progress in comparison with the original schedules and budgets, the reference framework or guidelines in calculating the project progress including examples are shown in Appendix 2); and
- (vi) an assessment of the validity of key assumptions and risks in achieving the quantifiable implementation targets.

E. Compliance with Covenants

Provide the following:

- (i) the borrower's compliance with policy loan covenants such as sector reform initiatives and EA reforms, and the reasons for any noncompliance or delay in compliance;
- (ii) the borrower's and EA's compliance with financial loan covenants including the EA's financial management, and the provision of audited project accounts or audited agency financial statements; and
- (iii) the borrower's and EA's compliance with project-specific loan covenants associated with implementation, environment, and social dimensions.

F. Major Project Issues and Problems

Summarize the major problems and issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g., changes in scope, changes in implementation arrangements, and reallocation of loan proceeds).

SAMPLE PROJECT PERFORMANCE REPORT

PROJECT PERFORMANCE REPORT							SERIAL NO : DIVISION : DEPARTMENT : PROJECT NO : STATUS :		
As of									
(ALL AMOUNTS IN US\$ MILLION)									
BASIC DATA									
NAME	PROJECT AT RISK Impact and Outcome Implementation Progress (IP) Potential Problem (PP) Override			LAST: : : : :	CURR:	Targeting Classification Themes Subthemes			
LOAN NO(S)	APPROVAL	SIGNING	EFFECTIVITY	-----CLOSING----- ORIGINAL	REVISED	ACTUAL	PHYSICAL COMPLETION ORIG: REV:		
PROJECT PROGRESS:		LAST: NEXT:		ACTUAL DAYS (last 12 months): PLANNED DAYS:			ELAPSED LOAN PERIOD ORIG: REV:		
REVIEW MISSIONS:									
EXECUTING AGENCIES:									
FINANCING PLAN (LOAN)									
PROJECT COST	TOTAL			COUNTERPART FUNDS ADEQUATE	CURRENT VALUE OF BANK LOAN: APPROVED : NET :	BALANCE AVAILABLE FOR COMMITMENT:			
ADB									
World Bank									
Government									
LOAN UTILIZATION									
----- CUMULATIVE CONTRACT AWARDS -----		----- CUMULATIVE CONTRACTS TO NET BANK LOAN(S) -----		----- 2008 CONTRACT AWARDS -----					
ADB	OTHERS	ADB	OTHERS	PROJ ACTUAL	1Q	2Q	3Q	4Q	TOTAL
----- CUMULATIVE DISBURSEMENTS -----		----- CUMULATIVE DISBURSEMENTS TO NET BANK LOAN(S) -----		----- 2008 DISBURSEMENTS -----					
ADB	OTHERS	ADB	OTHERS	PROJ ACTUAL	1Q	2Q	3Q	4Q	TOTAL
COVENANTS									
COMPLIANCE WITH COVENANTS:	AUDITED PROJECT ACCOUNTS / DELAY	AGENCY FINANCIAL STATEMENTS / DELAY	SECTOR COVENANTS	ENVIRONMENTAL COVENANTS	SOCIAL COVENANTS	FINANCIAL COVENANTS	ECONOMIC COVENANTS		
MAJOR ISSUES/PROBLEMS (IP, Impact and Outcome, Covenants)									
PROBLEM(S)				ACTION TAKEN/PROPOSED					
PAU ASSISTANT				PROJECT SPECIALIST					
<small>Legend: EGD - Economic Growth HD - Human Development GD - Gender and Development GG - Good Governance ENV - Environmental Protection PSD - Private Sector Development REG - Regional Cooperation CAD - Capacity Development</small>									

IMPACT AND OUTCOME

Impact

Description

Outcome

Description

Performance Targets/Indicators	Rating (H, S, P, U)	Progress/Status

Key Assumptions/Risks	Rating (H, S, P, U)	Assessment of Current Status
Assumptions:		

Risks:	Mitigated (Y/N)	
Overall Rating		NOTE: Overall Rating is based only on Assumptions and Risks until project completion. Thereafter, immediate DO assessment will be included

Rating Upon Suspension (for COBO use only)		
New Impact and Outcome Rating:	Effective Date:	Date of Lifting:
Remarks:		

Recent Development (Date:)

--

Problems with Impact and Outcome

Description	Action Taken/Proposed

Project Quality (one time input)

Capacity Building Component	Training Component	Participatory Process	Project Manager/Project Office prior to Loan approval	Incorporated Lessons Learned in Sector/Country	Logical Framework

IMPLEMENTATION PROGRESS

Project Outputs

Description	Indicators / Targets	Status

Key Project Inputs

(Loan Categories from LFI/Logical Framework)	Remarks

Key Assumptions/Risks (Input-Output)	Assessment of Current Status

Implementation Progress

Rating Criteria	Rating (H3, S, P3, U)	Remarks
1. Project Implementation		
2. Change in Project Scope		
3. Change in Implementation Arrangements		
4. Project Costs		
5. Counterpart Funding/Cofinancing		
6. Major Covenants (exclude #7 below)		
7. Audited Project Accounts and Corporate Financial Statements		
Overall Rating		

Design Changes

--

Recent Development (Date:)

--

Problems with IP

Description	Action Taken/Proposed

COVENANTS

Project and EA Accounts

EA	FY End	FY	Months Due After FY	Due	Date Received	Months Delayed	Acceptable Y/N	Auditor's Opinion (Q, U or A)	Status of Compliance	Rating
Submission of Audited Project Accounts (APA):										
Submission of Agency Financial Statements (AFS):										
								Overall Compliance and Rating:		
Findings/Actions Taken or To be Taken and other Remarks:										

Project Specific Covenants

Project-specific covenants	Date Due	Date Complied	Delays (mo.)	Status of Compliance	Rating (S,PS,U)	Remarks/Issues
Sector						
Environmental						
Social						
Financial						
Economic						
Others						
Overall Rating						

Problems/Remarks/Issues with Covenants

--

SAMPLE PROJECT COMPLETION REPORT

Suggested Topics for Project Completion Reports to be Prepared by Borrowers (project, multiproject, sector, program, sector development program, and technical assistance loans)

I. PROJECT DESCRIPTION

- A. Objectives
- B. Components (or subprojects for sector and multiprojects)
- C. Implementation methods
- D. Description and justification of changes in components (or subproject appraisal criteria) or implementation methods

II. PROJECT IMPLEMENTATION

- A. Compare original and actual implementation schedules. Indicate delays, length and causes of delays, and remedial action taken.
- B. Compare cost estimates made during appraisal and actual costs (foreign and local). Local currency costs incurred, appropriate exchange rates for their conversion into US dollars, and the foreign exchange costs financed by cofinanciers must be compiled correctly with reference to audited project accounts. Indicate factors that contributed to any significant overruns or underruns.
- C. State problems or difficulties in recruiting consultants, with reference to ADB procedures. Assess the consultant's work and the working relationship between the executing agency (EA) and the consultant. Use of a design and monitoring framework is strongly recommended.
- D. State problems or difficulties encountered in procuring goods and services (including civil works) with reference to ADB procedures. Assess the supplier's or contractor's performance under the contract.
- E. Give the extent of compliance of the borrower and EA with loan covenants, with reasons for noncompliance or delays in compliance and the remedial actions taken.
- F. State reasons for any delays in loan utilization. Evaluate the appropriateness of the disbursement methods used. Justify the reallocation of loan proceeds.
- G. State problems or difficulties with subproject appraisal. Evaluate the EA's performance and capacity to appraise subprojects.

III. INITIAL OPERATIONS

- A. Describe initial operations of the project and transitional problems encountered from project completion to initial operations.
- B. Describe measures taken to ensure continued smooth operation of the project relative to management, staffing, funding, and maintenance of project facilities.
- C. Analyze the prospects of the project benefits being realized.

IV. EVALUATION OF THE ASIAN DEVELOPMENT BANK'S PERFORMANCE

- A. Assess ADB's performance in supervising project implementation. Include comments on the adequacy of the consultants' terms of reference and appropriateness of specifications in tender documents. Evaluate the effectiveness and timeliness of assistance extended by ADB to solve implementation problems.
- B. Comment on problems encountered with ADB's procedures. Note the measures taken to resolve these problems and suggest changes in procedures and requirements.

SUMMARY OF MAJOR LOAN COVENANTS

	Reference	Covenants	Responsible Agency	Status
	Implementation Arrangements			
1	Loan Agreement, Schedule 5, para. 1	The Borrower will establish a Project Management Unit (PMU) to be headed by a Project Manager and staffed by specialists in technical, financial, procurement, social, and environmental matters. The PMU shall report to the Chief Engineer or the Deputy President of the Borrower.	Azerenergy	
Financial Management				
2	Loan Agreement, Schedule 5, para. 4	The Borrower shall ensure that (i) ADB is kept informed about the Government's announcements on the implementation of tariff policy reform, and (ii) it implements the tariff policy in accordance with its terms and defined timetable, so to achieve full cost recovery of its operations by 31 December 2010.	Azerenergy	
3	Loan Agreement, Schedule 5, para. 5	The Borrower will ensure to submit to ADB its consolidated financial statements (in respect of the company and its subsidiaries) drawn up in accordance with International Financial Reporting Standards, and audited by an international auditing firm acceptable to ADB, within 6 months of the end of each financial year.	Azerenergy	
4	Loan Agreement, Schedule 5, para. 6.a	The Borrower will submit to ADB its debt service ratio and gearing ratio for each financial year starting from Year 2012 onwards, maintain its debt service coverage ratio of not less than 1.5, and gearing ratio of not more than 70% .	Azerenergy	
Environment				
5	Loan Agreement, Schedule 5, para. 7	The Borrower will ensure that: (i) the Project is designed, constructed, and operated in accordance with applicable laws and regulations of the Republic of Azerbaijan, ADB's Environment Policy (2002) and the Initial Environment Examination (IEE); (ii) any adverse environmental impacts are minimized by undertaking the mitigating measures detailed in the EMMP; (iii) implementation of the Environmental Management and Monitoring Plan (EMMP) and any violation of environmental standards are reported semi-annually to ADB; (iv) the EMMP is incorporated in bidding documents and bills of quantities of the civil work contracts; (v) the EMMP is updated after detailed design and due diligence, with prior approval of ADB; and (vi) all environmental permits, licenses and clearances are obtained in a timely manner prior to commencement of civil works	Azerenergy	
6	Loan Agreement, Schedule 5, para. 8	The Borrower will ensure that (i) the handling of transformers and PCBs is undertaken in compliance with the terms of the Stockholm Convention, of which the Guarantor is a signatory, and with United Nations procedures for safe handling of PCBs; (ii) the new transformers are filled with non-toxic substitute for PCB; and (iii) it closely coordinates with the MENR, and engages the services of a specialized company established by the MENR for handling of hazardous materials.	Azerenergy	

	Reference	Covenants	Responsible Agency	Status
Resettlement				
7	Loan Agreement, Schedule 5, para. 9	The Borrower will ensure that (i) the new transmission lines and towers follow the existing alignment and locations, respectively; (ii) before commencement of civil works, a detailed due diligence report is completed on potential social impacts and submitted to ADB for approval; (iii) in the event that any land acquisition or resettlement becomes necessary, or any potential impact on indigenous peoples is identified, a suitable resettlement plan is drawn up in consultation with the affected people, and approval of ADB, in accordance with the applicable laws of the Republic of Azerbaijan, ADB's Involuntary Resettlement Policy (1995) and Policy on Indigenous Peoples (1998), and is implemented in accordance with its terms; (iv) the existing houses under the transmission lines remain intact during the Project implementation; (v) the construction is scheduled in the farm areas only during the non-agricultural season (June-Sept); and (vi) these provisions are incorporated suitably in the bidding documents and made part of the civil works contracts.	Azerenergy	
Others				
8	Loan Agreement, Schedule 5, para. 10	The Government shall ensure that: (i) it remains committed to the implementation of the State Program on the development of the Fuel Energy Sector in Azerbaijan (2005-2015); (ii) it fully implements its medium term tariff policy which incorporates transition of full cost recovery for utility service providers by 2010; (iii) the distribution companies are required to make timely payments for 100% of the power received from the Borrower; (iv) it provides financial support, as and when needed, to the Borrower to enable it to fulfill its obligations under this Loan Agreement; (v) it causes Borrower to make available all counterpart funding and facilities for timely implementation of the Project; and (vi) its cabinet of ministers coordinates the work between MED, MENR, MIE, and other government ministries/agencies for expeditious resolution of the issues and timely implementation of the Project.	Azerenergy	
9	Loan Agreement, Schedule 5, para. 13	In the event that the Azerenergy proposes to make (i) any change in ownership of the Project; (ii) any sale, transfer, or assignment of interest or control in the Project, or (iii) a lease or contract out or otherwise materially modify its functions and authority over implementation and operation of the Project, ADB must be consulted within 6 months prior to the implementation of such a proposal.	Azerenergy	
10	Loan Agreement, Schedule 5, para. 15	The Borrower shall prepare and submit to ADB quarterly progress reports (QPR) which will include: (i) a narrative description of progress made during the reporting period; (ii) changes, if any, in the implementation schedule; (problems or difficulties encountered; and (iv) activities and actions to be undertaken in the next reporting period.	Azerenergy	
11	Loan Agreement, Schedule 5, para.	The Borrower will: (i) by the end of the year 2008, engage Project implementation consultants for monitoring and	Azerenergy	Contract with MWW Decon,

	Reference	Covenants	Responsible Agency	Status
	16	evaluation of the Project; (ii) collect additional data from relevant agencies, including local governments and statistics bureaus for compiling the performance indicators; and (iii) measure the performance indicators at the inception, Project completion, and 3 years after Project completion.		Germany was signed on 27 May 2008.
12	Loan Agreement, Schedule 5, para. 17	ADB and the Borrower will meet regularly as necessary, and at least every 6 months, to review the progress of the Project. In addition, the Government, Borrower and ADB will jointly undertake mid-term review in Year 2009, which will focus on: (i) project impacts; (ii) implementation progress; (iii) sector reform and performance; (iv) performance of consultants and contractors; (v) status of compliance of loan covenants as stipulated in the Loan Agreement; and (vi) the need for any changes in the scope or schedule of the Project to ensure that objectives of the Project are met.	Azerenergy	
13	Loan Agreement, Article IV, Section 4.05 (a)	The Borrower will: (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as it is available or not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditor's opinion on the use of the loan proceeds and compliance with the financial covenants of this Loan Agreement, as well as on the use of the procedures for Imprest Account and Statement of Expenditures (SOE), all in English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof.	Azerenergy	
14	Loan Agreement, Article IV, Section 4.05 (b)	The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditor's appointed by the Borrower pursuant to Section 4.05 (a) above, and shall authorize and require any representative of such auditors to participate in any discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.	Azerenergy and ADB	
15	Loan Agreement, Article IV, Section 4.06	The Borrower shall enable ADB's representatives to inspect the Project, the goods and works financed out of the proceeds of the loan, and any relevant records and documents.	Azerenergy	
16	Loan Agreement, Article IV, Section 4.07	The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, maintenance and operational practices.	Azerenergy	

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EXECUTION PLAN

Work Breakdown Structure (WBS)

Level 1	Level 2
1. Prestartup	
	1.1 Board Approval on 10 September 2008
	1.2 Signed on 13 November 2008
	1.3 Became effective on 26 January 2009
2. Project Management Unit	
	2.1 Assign Staff
	2.2 Recruitment of Implementation Consultant . Contract signed with MVV Decon, Germany on 27 May 2008
	2.3
	2.4
3. Procurement of Contractor by June 2009	
	3.1 Turnkey contract completed by July 2009
	3.2
	3.3
4. Implementation	
	4.1
	4.2
	4.3
	4.4
5. Completion of civil works by Sep 2011	
	5.1
	5.2
	5.3
6. Completion of warranty period in Sep 2012	
	6.1
	6.2
	6.3
	6.4
7. Physical completion date: 31 December 2011	
	7.1
	7.2
	7.3
	7.4
8. Loan Closing Date: 30 June 2012	
	8.1
	8.2
	8.3
	8.4
9.	
	9.1
	9.2
	9.3

EXECUTION PLAN

Responsibility Allocation by Activity

Level 1	Level 2	Ref.	PMO	Cons.	Cont.
1.					
	1.1 Board Approval	ADB			
	1.2 Loan Signing	ADB/ Azerenergy			
	1.3 Loan Effectiveness	Azerenergy			
2.					
	2.1 Staff Assignments				
	2.2 Recruitment of Implementation Consultant	Appendix 6			
	2.3				
	2.4				
3. Procurement of Contractor		Azerenergy PMU			
	3.1				
	3.2				
	3.3				
4. Implementation		Azerenergy PMU			
	4.1				
	4.2				
	4.3				
	4.4				
5. Completion of civil works		Azerenergy PMU/ Contractor			
	5.1				
	5.2				
	5.3				
6. Completion of warranty period		Contractor			
	6.1				
	6.2				
	6.3				
	6.4				
7.					
	7.1				
	7.2				
	7.3				
	7.4				
8.					
	8.1				
	8.2				
	8.3				
	8.4				
9.					
	9.1				
	9.2				
	9.3				
10.					
	10.1				
	10.2				