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Azerbaijan: Water Supply and Sanitation Investment Program - Tranche 2

Project Name

Water Supply and Sanitation Investment Program - Tranche 2

Project Number

42408-033

Country / Economy

- Azerbaijan

Project Status

Closed

Project Type / Modality of Assistance

- Loan

Source of Funding / Amount

Loan 2842-AZE: Water Supply and Sanitation Investment Program - Tranche 2

| Source | Amount |
|----------------------------|---------------------|
| Ordinary capital resources | US\$ 300.00 million |

Strategic Agendas

- Environmentally sustainable growth
- Inclusive economic growth

Drivers of Change

- Gender Equity and Mainstreaming
- Governance and capacity development

Sector / Subsector

- **Water and other urban infrastructure and services** / Urban policy, institutional and capacity development - Urban sewerage - Urban water supply

Gender

Effective gender mainstreaming

Description

Project 2 of the Investment Program will improve WSS services in Agdash, Beylagan, Goychay, and Nakhchivan. The outcome of project 2 is improved access to WSS infrastructure in Agdash, Beylagan, Goychay, and Nakhchivan.

Outputs:

Component A: Water Supply and Sanitation Infrastructure Development

The first component will support infrastructure investments to rehabilitate, improve, and expand water supply and sanitation (WSS) systems and construct sewage treatment plants (STPs) in Agdash, Beylagan, Goychay, and Nakhchivan, which will benefit over 183,000 persons by the end of the project period. This translates to about 37% of the population benefited by the investment program. Project 2 includes construction of 460 kilometers of water supply network, 7000 cubic meters of storage reservoirs, 424 kilometers of sewer lines, and four STPs of 83 MLD capacity.

Component B: Institutional Effectiveness

The second component will improve the operational efficiency of Agdash JSC and Beylagan Sukanal through engagement of a water utility from a developed member country of ADB under the Twinning Partnership Program. SAWMC has engaged Aguas de Portugal for its twinning program which is now mid-way in implementation. The investment program also include implementation of a public outreach program (POP) targeting school children and teachers to disseminate better hygiene and sanitation practices to the communities, as well as to provide information on the benefits of the project. UNICEF was appointed by AZERSU who spearheaded the POP in Agdash and Beylagan.

UNICEF's participation in Project 2 will further strengthen the consultative and participatory approaches plan under the project, and will help the government comply with the Facility undertakings. The POP will target schools and address the 'child friendly school concept promoted by UNICEF. In addition, the POP will assess girl child development in schools and how drop-out rates could be reduced by providing better environmental sanitation. UNICEF has ongoing health programs in the country and has experience of exceptional worth for the POP assignment.

Component C: Program Management Facility

Supervision of civil works construction in Agdash, Beylagan, and Goychay will be carried out by the investment program management consultants (IPMC) under AZERSU, which is financed by the Tranche 1 loan. Supervision of civil works in Nakhchivan under Project 2 will be overseen by a design and supervision consultant (DSC) appointed by SAWMC and financed by the Tranche 2 loan. The DSC will develop detailed engineering designs for the WSS network in peri-urban Nakhchivan, which will be financed by a subsequent tranche.

Project Rationale and Linkage to Country/Regional Strategy

Delivering improved urban WSS services is a key priority of the government, as it is essential to improving the quality of life, attracting investment, and raising productivity and competitiveness. The challenges faced by Azerbaijan in delivering quality WSS services are discussed in the RRP and Appendix 2 for the facility. Recognizing the need to overcome the current problems and constraints, the government's State Program on Poverty Reduction and Sustainable Development (State Program) for 2008-2015 commits to improving access to basic services and targets improved WSS coverage and service quality by 2015. This includes 100% coverage with 24-hour water supply in the capital city Baku and 80-85% coverage in Azerbaijan's secondary towns and villages. Sustainable environmental management, good governance and institutional effectiveness are also key strategic goals of the State Program.

Road Map Implementation: Physical Investments. The government is currently focusing on improving access to WSS services by reconstructing and expanding the infrastructure. Out of the total urban WSS investment requirement of \$3.5 billion, ADB's support accounts for 18%, World Bank's 14%, and JICA's 12%. The quality of WSS infrastructure in the Nakhchivan Autonomous Republic (NAR) has improved since 2009 but infrastructure provision in areas outside NAR has been slow because:

" Bidding under Project 1 of the investment program was delayed due to cancellation of the Goychay WSS network contract resulting from significantly high bid prices;

" Bidding under a World Bank loan was cancelled after AZERSU received high bid prices for WSS networks contracts using the design-build modality; and

" AZERSU's project management capacity and ability to manage engineering designs, cost estimation, and bidding processes was weak.

Change Management. Recognizing these shortcomings, the government restructured AZERSU. In February 2011, the government wrote off approximately \$370 million equivalent accounts receivables from AZERSU's customers (non-debt liabilities). It appointed experienced project management and utility operation staff to improve AZERSU's operations, enabling it to deliver efficient services to the customers. The government also increased WSS tariffs on average by 40% across various customer groups on 1 February 2011. The government's efforts have begun to yield results and with support from development partners, it is now refining its approach to improve institutions, systems, and service delivery.

Road Map Implementation: Non-physical Investments. Both AZERSU and SAWMC have put in place programs to improve their accounting and financial management systems. Through an ongoing technical assistance supported by the World Bank, AZERSU will shortly adopt international financial reporting standards. From a technical perspective, the two key institutions have focused on international standards for designing WSS systems, and training on operation and maintenance of water treatment plants. AZERSU has recently initiated discussions with SUEZ, one of the world's largest private water companies, to set up a training center for AZERSU staff, and develop staff capacity for better system planning, preparation and implementation of WSS projects, asset management, and operations and maintenance.

Impact

Improved water supply and sanitation services in the urban centers of Agdash, Beylagan, Goychay and Nakhchivan

Project Outcome

Description of Outcome

Improved access to water supply and sanitation infrastructure in Agdash, Beylagan, Goychay and Nakhchivan

Progress Toward Outcome

Aguas de Portugal was engaged by SAWMC for the Twinning Partnership Program

Implementation Progress

Description of Project Outputs

Water supply system efficiency improved through rehabilitation and replacement, and coverage expanded

Sewerage and sanitation system efficiency improved through rehabilitation and reconstruction, and coverage expanded

Management information system developed

Management capacity of Sukanals and JSCs enhanced

Institutions improved for WSS delivery

Better hygiene and sanitation practices in the community

Status of Implementation Progress (Outputs, Activities, and Issues)

Aguas de Portugal was engaged by SAWMC for the Twinning Partnership Program. The Program implementation started in Q2 2016 and finalized in Q2 2017

Implementation of gender action plan for the project is ongoing.

UNICEF was engaged by Azersu to implement the public outreach program which was successfully completed in Q1 2016.

Civil works in Nakhchivan have been completed. The WSS network in Goychay, Agdash and Beylagan physically completed by end-Dec 2016. The Goychay WWTP completion is ongoing and targeted to be completed by 4Q 2017.

Sewage treatment plant in Goychay is under construction and targeted to be completed by end 2017

Geographical Location

Agdash Rayon, Beylagan Rayon, Goychay Rayon, Nakhichevan

Safeguard Categories

Environment

B

Involuntary Resettlement

B

Indigenous Peoples

C

Summary of Environmental and Social Aspects

Environmental Aspects

AZERSU and SAWMC endorsed the Environmental Assessment and Review Framework (EARF) that was prepared for the investment program. The EARF will be reviewed regularly and, if necessary, updated during later tranches of the MFF, if indicated by unanticipated new types of impacts (review of applicability and relevance). The eligibility and entitlement provisions of the EARF will not be lowered in subsequent revisions and updates.

Involuntary Resettlement

AZERSU and SAWMC endorsed the Resettlement Framework (RF) that was prepared for the investment program. The RF will be reviewed regularly and, if necessary, updated during later tranches of the MFF, if indicated by unanticipated new types of impacts (review of applicability and relevance). The eligibility and entitlement provisions of the RF will not be lowered in subsequent revisions and updates. A resettlement plan has been prepared and approved by ADB.

Indigenous Peoples

The Project will have no expected impact on Indigenous Peoples.

Stakeholder Communication, Participation, and Consultation

During Project Design

Extensive consultations have been undertaken with stakeholders, including project towns, NGOs and community-based organizations, elected representatives, administrative departments, rayon (town) administrations, and representatives of various government ministries. Meetings, focus group discussions with NGOs, and structured interviews were undertaken with stakeholders.

During Project Implementation

Consultations ongoing with beneficiaries during project implementation.

Business Opportunities

Consulting Services

Tranche 2 includes one consulting package using the quality-and cost- based selection method to recruit a DSC in Nakhchivan; one consulting services using a single source selection method to recruit a WSS utility to implement the twinning program, and UNICEF to implement the public outreach program.

All consulting contracts have been awarded.

Procurement

The investment program will follow ADB's Procurement Guidelines (2015, as amended time to time). Tranche 2 loan included: (i) five international competitive bids (ICBs) for procurement of civil works for water supply and sewerage network in Agdash, Beylagan, Goychay, and Nakchivan; (ii) two ICBs for procurement of civil works for sewage treatment plant in Goychay and Nakchivan.

Bidders eligibility will be determined in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Accordingly, no bidder or potential bidder shall be declared ineligible for ADB financed contracts for any reason other than those set out in ADB's Procurement Guidelines. For goods or services funded by loans from ADB's Special Fund resources, payments are limited to goods produced in, and services supplied by, developed member countries that have contributed to such resources and all developing member countries.

All civil works contracts in Tranche 2 have been awarded.

Contact

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 AzerSu JSC
 State Amelioration & Water Management Committee of Nakhchivan Autonomous Republic

Timetable

Concept Clearance
 07 May 2009
 Fact Finding
 -
 MRM
 29 Nov 2011
 Approval
 22 Dec 2011
 Last Review Mission
 -
 Last PDS Update
 02 Oct 2017

Funding

Loan 2842-AZE

| Approval | Signing Date | Effectivity Date | Milestones | | |
|-------------|--------------|------------------|------------------|-------------|-------------|
| | | | Closing Original | Revised | Actual |
| 22 Dec 2011 | 06 Jun 2012 | 20 Sep 2012 | 30 Jun 2017 | 30 Dec 2017 | 04 May 2018 |

Financing Plan

Total (Amount in US\$ million)

| | |
|--------------|--------|
| Project Cost | 410.00 |
| ADB | 300.00 |
| Counterpart | 110.00 |
| Cofinancing | 0.00 |

Loan Utilization

| | Date | ADB | Others | Net Percentage |
|----------------------------|-------------|------------|---------------|-----------------------|
| Cumulative Contract Awards | 17 Jun 2022 | 299.71 | 0.00 | 100% |
| Cumulative Disbursements | 17 Jun 2022 | 299.71 | 0.00 | 100% |

Status of Covenants

| Category | Sector | Safeguards | Social | Financial | Economic | Others |
|-----------------|---------------|-------------------|---------------|------------------|-----------------|---------------|
| Rating | Satisfactory | Satisfactory | Satisfactory | Satisfactory | - | - |

Project Page <https://www.adb.org/projects/42408-033/main>

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