

Validation Report
November 2021

Kyrgyz Republic: Power Sector Rehabilitation Project

Reference Number: PVR-816
Project Number: 44198-013
Loan Numbers: 2869
Grant Number: 0294



Raising development impact through evaluation

ABBREVIATIONS

ADB	– Asian Development Bank
AEFSs	– audited entity financial statements
DMF	– design and monitoring framework
EIRR	– economic internal rate of return
EPP	– electric power plants
FIRR	– financial internal rate of return
GWh	– gigawatt-hour
HEPP	– hydroelectric power plant
IEE	– initial environmental examination
KESC	– Kyrgyz electricity settlement center
kV	– kilovolt
MOEI	– Ministry of Energy and Industry
O&M	– operation and maintenance
PCR	– project completion report
PIU	– project implementation unit
PPMS	– project performance management system
SDR	– special drawing rights

NOTE

In this report, “\$” refers to United States dollars.

OIC-Director General	Sona Shrestha, Independent Evaluation Department
Director	Nathan Subramaniam, Sector and Project Division (IESP)
Team Leader	Arjun Guha, Evaluation Specialist, IESP

The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of IED management, there were no conflicts of interest of the persons preparing, reviewing, or approving this report. The final ratings are the ratings of IED and may or may not coincide with those originally proposed by the consultants engaged for this report.

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, IED does not intend to make any judgments as to the legal or other status of any territory or area.

PROJECT BASIC DATA

Project number	44198-013	PCR circulation date	18 Jun 2021	
Loan and grant numbers	2869 and 0294	PCR validation date	Nov 2021	
Program name	Power Sector Rehabilitation Project			
Sector and subsector	Energy	Electricity transmission and distribution		
Strategic agendas	Inclusive economic growth Regional integration			
Safeguard categories	Environment		B	
	Involuntary resettlement		C	
	Indigenous peoples		C	
Country	Kyrgyz Republic		Approved (\$ million)	Actual (\$ million)
ADB financing (\$ million)	ADF: 55.00	Total project costs	62.00	46.50
	OCR: 00.00	Loan/Grant		
		2869	15.00	10.97
		0294	40.00	29.95
		Borrower	7.00	5.58
		Beneficiaries		
Others				
Cofinancier		Total cofinancing		
Approval date	11 Jun 2012	Effectiveness date	12 Nov 2012	14 Dec 2012
Signing date	12 Sep 2012	Project completion date	30 Jun 2017	31 Dec 2019
		Financial closing date	—	24 Jun 2020
Project officers	J. Liston P.L. Koh S. Hasnie M. Eshenaliev S. Aldeev	Location ADB headquarters ADB headquarters ADB headquarters KYRM KYRM	From Dec 2012 Feb 2015 Mar 2017 Apr 2018 Jun 2019	To Feb 2015 Feb 2017 Apr 2018 Jun 2019 Jun 2020
IED review				
Director	N. Subramaniam, IESP			
Team leader	A. Guha, Evaluation Specialist, IESP*			

— = no approved financial closing date, ADB = Asian Development Bank, ADF = Asian Development Fund, IED = Independent Evaluation Department, IESP = Sector and Project Division, KYRM = Kyrgyz Republic Resident Mission, OCR = ordinary capital resources, PCR = project completion report.

*Team members: H. Hettige (quality reviewer), F. De Guzman (Senior Evaluation Officer), and C. Mason and P. Chojnowski (consultants).

I. PROJECT DESCRIPTION

A. Rationale

1. Hydropower plants in Toktogul and downstream in the Naryn cascade produced about 92% of Kyrgyz Republic's total electricity output since 2002.¹ Toktogul hydroelectric power plant (HEPP), with multiyear storage capacity and producing 50% of the average electricity output, had a critical role in electricity exports and as a frequency regulator for Central Asia's power system. Thus, the government identified rehabilitation of hydropower plants as a top priority.

¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant Kyrgyz Republic: Power Sector Rehabilitation Project*. Manila.

An assessment of hydropower plants concluded that all hydropower plants required rehabilitation and the Toktogul HEPP was the first priority. This HEPP had been in operation for over 35 years and its critical equipment was failing, resulting in availability falling to 80% and would continue to fall if not rehabilitated.

2. The hydropower plants in the Naryn cascade are situated in an active seismic zone, increasing the geological hazard of rockfalls and landslides. Dams on the Naryn cascade were built from 1960 to 1980, except for Kambarata 2. International design criteria for dam hydrological and seismic safety since then became more stringent, and existing dam designs did not cater for the climate change's impact on hydrology and variations in seasonal flow rates. A dam safety assessment study in Naryn cascade was essential to identify required remedial measures.

3. Power assets were generally over 30 years old and reaching the end of their economic life resulting in high technical losses of about 15% of net supply. The sector also suffered from high commercial losses of about 25% of net supply. At appraisal, the Asian Development Bank (ADB)-funded study proposed a corporate structure, organizational design, and technical system configuration of a Kyrgyz electricity settlement center (KESC).² KESC would be part of the project to control sector revenue distribution from the Ministry of Energy and Industry (MOEI). By identifying energy flows and managing distribution of revenues, commercial losses were to be identified and distribution companies were to focus on commercial loss reduction programs.

4. Electricity tariffs were below cost recovery, with a weighted average consumer tariff of \$0.022 per kilowatt-hour. An estimated weighted average tariff of \$0.05 per kilowatt-hour was required for full cost recovery. A public information program focusing on experiences in similar countries, ongoing sector developments and reforms, and an effective tariff policy was needed. The grant-loan financing was appropriate, given the project's relatively small size.

B. Expected Impact, Outcome, and Outputs

5. The expected project impact in the design and monitoring framework (DMF) was increased reliability of national and regional power systems. The targeted outcome was Kyrgyz Republic's improved operational performance of power sector. The four envisaged project outputs were (i) a rehabilitated Toktogul HEPP, (ii) an established KESC, (iii) assessed dam safety, and (iv) a public information program.

C. Provision of Inputs

6. The project was approved in June 2012 and became effective in December 2012, a month late than planned. The loan closed in June 2020, 2.5 years late than scheduled, as stipulated in the loan agreement. ADB approved two loan extensions: The first was in November 2014 to take into account delays in procurement and the establishment of KESC. Second extension was in May 2019 so as to allow KESC 6 months more to become operational by November 2019 and to complete Lot 4—the 500 kilovolt (kV) switchyard rehabilitation at Toktogul—that was financed from loan savings.

7. The project was estimated at \$62 million. The government requested a loan in various currencies equivalent to SDR9,703,000 (\$15 million equivalent) and a \$40 million grant, both from ADB's special funds resources to finance the project. It was to allocate \$5.4 million to MOEI to establish KESC, a public information program, and a dam safety assessment. The remaining

² Study on the Wholesale Electricity Transaction Settlement System (Grant 0218- KGZ).

\$49.6 million was to be relented to the open joint-stock company Electric Power Plants (EPP) to fund the turnkey rehabilitation contract, consulting services for project implementation, and external audit. The government and EPP were to contribute \$7 million to the project, including the financing or exemption of taxes and duties and interest during construction.

8. At completion, ADB funds were used for the Toktogul HEPP's turnkey contract and related consulting services and several consultant fees to establish KESC, undertake the dam safety work, and expenses associated with the public information program. In October 2018, the government requested ADB to cancel SDR1.43 million (\$3.40 million equivalent) of loan proceeds and \$8.00 million of grant proceeds. The project completion report (PCR) did not explain the reason for the cancellations. Actual completion cost was \$46.50 million, with ADB's share of \$40.92 million (SDR7.84 million equivalent to \$10.97 million from the loan and \$29.95 million from the grant) and the balance from the government.

9. Four consulting packages were planned at appraisal for the (i) Toktogul HEPP, (ii) the KESC and public information program, (iii) the dam safety assessment, and (iv) the external audit. Consultant recruitment for the public information campaign was bundled with KESC's establishment, but was later separated when it became apparent that KESC implementation would take more time. The PCR provided no information on person-months of consulting services.

10. The project was classified category B for environment as impacts were mostly concentrated during the construction phase and could be addressed through mitigation measures. Its main environmental impacts included (i) occupational health and safety at the project site, (ii) management of used oil and grease waste, (iii) disposal of scrap metal and other solid waste, and (iv) proper handling and monitoring of circuit breakers. The project was classified category C for both involuntary resettlement and indigenous peoples based on ADB's safeguard policy. The project was implemented in the existing Toktogul hydropower plant territory, where there were no land acquisition or resettlement requirements. The project did not affect indigenous peoples and was categorized "no gender elements" at appraisal.

D. Implementation Arrangements

11. The MOEI's functions were to (i) establish KESC, (ii) manage the public information program, and (iii) supervise the dam safety assessment. The EPP was to rehabilitate the Toktogul HEPP and its project implementation unit (PIU) was to oversee execution of the turnkey contract. An international consulting firm was to assist the PIU and provide services, such as bid evaluation, construction supervision, project accounting, safeguard monitoring, and reporting to the government and ADB.

12. The MOEI supervised the project's physical investment components and managed the settlement center component, public information program, and dam safety assessment. The EPP was the executing agency for Toktogul HEPP's rehabilitation. EPP's PIU had a director reporting to the general director and three engineers. Added responsibilities were subsequently given to the PIU, with additional personnel appointed for project accounting, payments processing, and safeguard monitoring. The MOEI had its own PIU, with four specialists that dealt with donor projects. Both PIUs coordinated the consultants and contractors.

13. All loan covenants were complied with except one that was deferred and another was partly complied with. ADB approved deferment of the covenant on EPP's asset revaluation since it was to be covered in the follow-on Toktogul rehabilitation phase 2 project. The partly complied covenant was related to introducing a phased increase in tariffs to achieve full operational and

capital cost recovery by 2016. The government adopted a medium-term tariff policy for 2014–2017 with a 7%–10% annual tariff increase, although tariffs were increased only once in 2015. A new medium-term tariff policy for 2020–2022 was approved in March 2020, leaving the existing tariffs unchanged.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

14. The PCR rated the project relevant. It was aligned with the government's goals to (i) improve management of energy enterprises, (ii) enhance growth of volume of production and export of electric energy, and (iii) strengthen sustainability of power supply.³ The project was consistent with ADB's country partnership strategy for the Kyrgyz Republic, 2013–2017, and was included in its country operations business plan 2011–2012 to improve the reliability and financial sustainability of electricity supply with focus on rehabilitating and upgrading of key existing assets, including hydropower plants; and institutional and technological reform.⁴ It is aligned with the government's and ADB's strategies to (i) reduce electricity losses and theft, (ii) improve sector financial performance and corporate management, (iii) increase energy security through development of domestic resources, (i) expand regional power exports, and (iv) phase-in cost-recovery tariffs over the medium term.

15. The DMF timing of targets were affected when the project was delayed. The PCR indicated two issues regarding the DMF. First, the impact indicators of increased exports and increased domestic supply did not foresee the high growth in domestic demand. Second, the output indicator of reducing commercial losses to 10% by end of project was poorly selected since losses could not be identified. The PCR also indicated a few minor changes on the scope of work that were not foreseen at appraisal. It stated that the rehabilitation would be continued under phases 2 and 3, and thus, work on turbine generator–related equipment, such as, the excitation system, governor system, and stator windings, were shifted to the subsequent phases.

16. The project addressed a critical development constraint in the country and was consistent with the government's and ADB's strategies. A few minor changes in scope were undertaken that helped maintain the project's relevance. However, the project could have delivered outcome and output targets much earlier, possibly before or after its medium-term review. The DMF could also have been designed better. The target of 10-year average of net exports by 2021 to be maintained at the 2001–2010 average of 2,000 gigawatt-hours (GWh) per year had little relevance to the impact goal of increased reliability of national and regional power systems. The outcome target of reducing system losses from 24% in 2009 to 10% in 2019 also had little relevance to the project, which was rehabilitation of generation, rather than the transmission and distribution system. Although KESC's establishment would have helped in the longer run, it was unlikely that KESC would have had an influence on reducing system losses substantially by 2019. On the whole, this validation assesses the project relevant.

³ Government of the Kyrgyz Republic. 2011. *Medium-Term Development Program of the Kyrgyz Republic, 2010–2014*. Bishkek.

⁴ ADB. 2011. *Country Operations Business Plan: Kyrgyz Republic, 2011–2012*. Manila; and ADB. 2013. *Country Partnership Strategy: Kyrgyz Republic, 2013–2017*. Manila.

B. Effectiveness in Achieving Project Outcomes and Outputs

17. The PCR rated the project effective in achieving its outcomes and outputs. It indicated that the first outcome indicator on the percentage of time for the Toktogul HEPP to become available was substantially achieved. It reached 89% in 2019, just short of the 90% target. The PCR noted that this occurred in the same year as when the project was completed and, thus, reflected the more limited availability in months when the project had not been completed. For the second outcome indicator on the reduction in commercial losses from 24% in 2009 to 10% in 2019, this was not achieved. This validation notes that for the first outcome indicator, there was a slight shortfall in terms of achievement, despite the 2-year delay from what was scheduled. In the case of the second indicator, it still was not achieved despite the change in the target year from 2016 to 2019.

18. On the outputs, the PCR indicated that target dates in the DMF were revised in May 2019 to account for delays in project implementation. The output targets in the DMF did not change. This validation notes that the change in output target dates came in late since the project was completed at the end of 2019. Deviation on the targeted schedules meant that the improvements in a nationally important energy infrastructure were not available to support the economy for that period.

19. This validation assesses that three outputs were achieved, albeit with delays, while the output on dam safety assessment was only partially achieved. The first output was Toktogul HEPP's rehabilitation that was achieved in 2019, as against the 2016 planned completion year. The PCR stated that this output was "overachieved" due to additional scope added for Lot 4 out of loan savings from Lots 1 to 3. On balance, this validation assesses this output as "achieved." For the second output, the establishment of electricity settlement center, the PCR indicated that the KESC started publishing data on electricity flows in 2019 (planned: 2014) and began conducting settlement operations in 2020 (planned: 2015). The third output on public information was achieved, while the PCR indicated that targets were exceeded. The public consultation took form of several roundtable discussions. More than 60 articles were run in six newspapers and six television broadcasts were made on two channels. This validation notes that the PCR did not indicate the actual years of completion for these activities even though at appraisal, these were envisaged to be completed in 2013 and 2014. The fourth output pertaining to the dam safety assessment report was provided and accepted by MOEI in 2016 against the planned completion of 2014. The PCR considered it partially achieved since the unaddressed comments from the EPP left questions regarding the work quality.

20. An initial environmental examination (IEE) was prepared at project preparation in 2012. The IEE's quality and its 2015 update were marginally satisfactory. The PCR indicated that a supplementary IEE was required for Lot 4 due to its major component on handling asbestos-containing material. A Lot 4 IEE was prepared in February 2019.

21. The project was correctly classified category B for environment and C for involuntary resettlement and indigenous peoples, in compliance with ADB's Safeguard Policy Statement (2009).⁵ Environmental monitoring reports indicated compliance with the environmental monitoring plan, host country, and ADB requirements, and had no significant environmental issues. The key areas of waste management and worker health and safety were adequately addressed.

⁵ ADB. 2009. Safeguard Policy Statement. Manila.

22. On the whole, the project delivered almost all of the planned outputs despite of delays. However, its intended outcome was only partially achieved due to a shortfall for one indicator and the non-achievement of the other. This validation assesses the project less than effective.

C. Efficiency of Resource Use

23. The PCR rated the project efficient. The economic internal rate of return (EIRR) was recalculated at 24.9%, higher than the EIRR of 21.3% at appraisal. The main reason for the higher EIRR at completion was lower capital costs. The project was also assessed to be the least-cost alternative. Sensitivity of the economic analysis results was tested by decreasing the value of avoided energy cost by 20%, and doubling the estimated operation and maintenance (O&M) expense. For both, the EIRR was above 20% and above the 12% threshold.

24. The PCR indicated low process efficiency that was already considered in the EIRR calculation. The project was delayed as the result of inappropriate contract packaging. The contract package's subsequent redesign worked to the project's advantage since the final costs were lower than estimated. For KESC, a more thorough design might have avoided the difficulties stemmed from the complex subproject.

25. The use of a standard conversion factor of 0.9 was not justified since it was also used 10 years earlier at appraisal. The standard conversion factor should have been recalculated based on the most recent data. Nevertheless, the other assumptions and methodology of the EIRR calculation were appropriate. Therefore, this validation assesses the project efficient.

D. Preliminary Assessment of Sustainability

26. The PCR rated the project less than likely sustainable. The financial internal rate of return (FIRR) was recalculated at 10.5%, below 12.3% as originally calculated at appraisal, although above the weighted average cost of capital of 0.53%. The recalculated FIRR is over-estimated since the FIRR calculation did not seem to include income tax. Varying the benefit assumptions tested the sensitivity of the financial analysis results. This included a decrease of 20% in EPP's average tariff and a doubling of the estimated O&M costs. In both cases, the resulting FIRR was above the weighted average cost of capital.

27. EPP's most recent audited project financial statements indicated losses of Som159 million in 2018 and Som3,826 million in 2019. Financial statements for previous years showed profits, but 2019 was the first year in which an international auditing firm was engaged to undertake the audit. The cost of electricity imported from neighboring countries was also higher than revenues from residential tariffs, thus, contributed to rising losses. Given the financial results of the past 2 years, EPP's sustainability is questionable. On the other hand, EPP accounts for the vast majority of electricity generated in the Kyrgyz Republic; thus, the state-owned EPP has full government support. The government canceled and rescheduled energy sector debt in the past and should continue supporting EPP as the financial guarantor. However, the government's financial condition deteriorated due to the COVID-19 pandemic. Public debt levels rose to 62.2% of gross domestic product in 2020 against 54% in 2019. Real gross domestic product contracted by 8.6% in 2020 and economic growth in 2021 is expected to be about 3.5%. Therefore, the PCR's and validation note that the government support to EPP may not be certain.

28. The project is environmentally and technically sustainable, particularly with respect to the cable lines. The old 500 kV cable lines were oil-filled and required daily maintenance needing to check oil pressure, a chemical analysis of the oil, inspection of leaks, and checking the gas

content in the oil. The project replaced the old cable lines with new 500 kV cable lines free of oil and other liquid materials.

29. The overall financial impact due to the project is positive due to the high FIRR and minimal additional O&M expenses. However, this validation assesses the project less than likely sustainable due to (i) EPP's weak financial position, (ii) the lack of government commitment to increase tariffs, and (iii) scarcity of government resources to continue subsidizing EPP.

III. OTHER PERFORMANCE ASSESSMENTS

A. Preliminary Assessment of Development Impact

30. The PCR rated the project's development impact satisfactory. The two impact indicators in the DMF were 10-year average of net exports by 2021 will be maintained at the 2001–2010 average of 2,000 GWh per year, and domestic supply was to be increased to 8,500 GWh in 2019. The first indicator was not achieved. It was likely that the additional 2,000 GWh that was expected to be exported was used for domestic needs. The second indicator was achieved with a 10,540 GWh increase in domestic supply. Nevertheless, the Kyrgyz Republic is rich in hydropower resources and electricity production by hydropower plants is an important sector of the economy. Since 2002, the country's hydropower plants generated 92% of its total electricity production, with Toktogul HEPP producing by far the most. Therefore, this validation assesses the project's development impact satisfactory.

B. Performance of the Borrower and Executing Agency

31. The PCR rated the performance of the borrower and executing agencies satisfactory. The project was preceded by another power sector project, part of which entailed meter data acquisition for KESC, so the project was essentially a follow-on.⁶ Thus, the government, as the borrower, was well prepared for the project in terms of ensuring the quality of project preparation and meeting loan effectiveness requirements. No significant shortcomings were noted in implementing the project aside from delays due to the need to retender some contracts.

32. EPP's weak financial management capacity and the government's questionable commitment to tariff reform are project sustainability concerns. The covenant related to tariff levels was partially complied with. However, the PIU and the MOEI fulfilled other project requirements, including safeguard-related reporting during implementation.

33. Tariff reform is a crucial aspect of EPP's financial sustainability. However, the government was not fully committed to increasing tariffs as what the loan covenants required. Therefore, this validation assesses the performance of the borrower and executing agencies less than satisfactory.

C. Performance of the Asian Development Bank

34. The PCR rated ADB's performance satisfactory. ADB fielded 15 review missions that focused on project implementation progress, the predecessor project, and the pipeline of power sector projects in consultation with the government, EPP, and the MOEI. ADB provided training on its guidelines and procedures to address PIU's limited experience with ADB-financed projects.

⁶ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Kyrgyz Republic for the Power Sector Improvement Project*. Manila.

ADB conducted review and approval of procurement documents and project progress reports in a timely manner. Apart from dealing with the implementation delays, no other intervention was required. However, the outcome indicators in the DMF could have been developed better. As a whole, ADB's measures helped ensure that the project was successfully implemented. This validation assesses ADB's performance satisfactory.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

35. The PCR rated the project successful, in view of its ratings of relevant, effective, efficient, and less than likely sustainable. This validation assesses the project relevant, less than effective, efficient, and less than likely sustainable. The less than effective rating was due to the partial achievement of the project's outcome. Overall, this validation assesses the project less than successful.

Overall Ratings

Validation Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness	Effective	Less than effective	Project's target outcome was partially achieved.
Efficiency	Efficient	Efficient	
Sustainability	Less than likely sustainable	Less than likely sustainable	
Overall Assessment	Successful	Less than successful	
Preliminary assessment of impact	Satisfactory	Satisfactory	
Borrower and executing agency	Satisfactory	Less than satisfactory	The government did not increase tariffs as the loan covenants required .
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR			Para. 42.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.
Source: ADB (IED).

B. Lessons

36. The PCR identified four issues and lessons. First, the project management committee prepared an IEE to cover Lot 4. However, it did not address the handling of asbestos. To avoid spending time unnecessarily in resolving this issue, it would have been useful to have had the training on asbestos handling. Second, to avoid implementation delays, contracts need to be packaged in appropriate lots and stakeholders should agree on the terms of reference well before implementation. Third, developing impact and outcome targets that are relevant should be considered and can be easily assessed in post-project evaluations. Fourth, the dam safety assessment report was not satisfactory to EPP. Better identify the most appropriate executing agency for project components to carry out such studies. The lesson on financial management and power sector performance was more of an observation than a lesson.

37. This validation offers two additional lessons. First, during preparatory phase, it is essential that appropriate assessment and due diligence on the capacity of executing and implementing agencies are performed to identify the technical assistance needed to effectively facilitate the

project implementation. Planning for appropriate measures to support the weaknesses of agency's technical and managerial capacity can reduce the potential implementation issues and delays. For instance, strengthening the agency's procurement capacity at the onset could facilitate sound procurement planning and accelerate timely procurement. Procurement assessment and review should also permit adoption of appropriate procurement design, such as contents of bidding documents and contract packages, and appropriate bidding procedure, among others. Under the project, the bidders were all nonresponsive to the specified requirements of contracts resulting to bids rejection. The complexity and diversity of works in a single contract also resulted to the failed bidding that resulted to substantial implementation delays.

38. Second, long-term sustainability of power supply services would be highly dependent on the sector agencies' financial capacity and tariff policies to cover the project's operation and maintenance costs. The presence of appropriate tariff measures can help enhance the sector entities' financial position to stay solvent and strengthen the project's sustainability. Under the project, government's unwillingness to raise tariffs undermines EPP's financial sustainability. As such, a tariff study and structuring plan during design stage would support distribution entities to reduce financial risk and meet the future revenue requirements.

C. Recommendations for Follow-Up

39. The PCR suggested five recommendations. First, implementation delays may be avoided through a market assessment that matches areas of expertise of firms with the specific work to be undertaken. This would lead to better design of tendering packages, better response from potential bidders, and fewer delays. Second, training on ADB's safeguards policy and procedures should be strengthened. The executing agency, consultants, and ADB should have better safeguard compliance monitoring to help resolve issues that emerge during project implementation. Third, although KESC is operational, its scope should be increased to include all lines at the high-voltage distribution level. ADB should follow up and encourage such expansion. Fourth, the government should clarify KESC's involvement in financial settlements, whether KESC or another entity should undertake this function. Lastly, ADB should monitor EPP's financial performance during loan repayment and follow up on the government's commitment to increase tariffs or provide sufficient subsidies for EPP to become a financially sustainable entity. This validation has no other recommendation to offer.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Reporting

40. EPP submitted audited project financial statements to ADB as required. The PIU conducted routine project performance monitoring of physical works and contractor's social and environmental safeguard activities. Audited entity financial statements (AEFSs) were submitted, although some were months delayed. The 2014 AEFSs were 10.6 months delayed due to the report's poor translation, while the 2018 AEFSs were 7.7 months delayed due to rebidding of the auditor's contract. The auditor's opinions on EPP's 2012, 2018, and 2019 AEFSs were also qualified. Again for the 2018 AEFSs, there was missing information needed to properly reflect the value of some assets and operations. The latest available audited report, for the year ending December 2019, had a qualified opinion based on (i) the unknown effect of the impairment of property, plant, and equipment on the financial statements; (ii) nonrecognition of long-term employee compensation obligations; (iii) nonrecognition of long-term obligations to restore plant

site; and (iv) uncertainty of opening balances of some accounts since a different auditor handled the previous audit.

41. A project performance management system (PPMS) was to be established according to the loan covenants and the PCR noted that this requirement was complied. However, the PCR did not discuss the design, implementation, and the quality of the PPMS.

B. Comments on Project Completion Report Quality

42. The PCR was succinct and assessed all the evaluation criteria. The assessment was generally sound except for the sustainability section. The PCR also did not discuss the design, implementation, and the quality of the PPMS. This validation assesses the quality of the PCR satisfactory.

C. Data Sources for Validation

43. Data sources used are the country partnership strategy, report and recommendation of the President, the PCR, mission reports, and government strategic plans.

D. Recommendation for Independent Evaluation Department Follow-Up

44. The PCR noted that the project was one of a series of rehabilitation projects at the Toktogul HEPP. It suggested that a project performance evaluation report be prepared after all phases have been completed. This validation supports this recommendation.