



# Completion Report

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Project Number: 50079-001  
Technical Assistance Number: 9151  
June 2021

## Azerbaijan: Preparing a Power Sector Financial Recovery Plan

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## TECHNICAL ASSISTANCE COMPLETION REPORT

<b>TA Number, Country, and Name:</b> TA 9151-AZE: Preparing a Power Sector Financial Recovery Plan		<b>Amount Approved:</b> \$1,200,000.00	
		<b>Revised Amount:</b> \$1,300,000.00	
<b>Executing Agency:</b> Ministry of Finance	<b>Source of Funding:</b> Technical Assistance Special Fund-Others	<b>Amount Undisbursed:</b> \$25,481.00	<b>Amount Used:</b> \$1,274,519.00
<b>TA Approval Date:</b> 5 August 2016	<b>TA Signing Date:</b> 30 August 2016	<b>TA Completion Date</b>	
		<b>Original Date:</b> 30 June 2019	<b>Latest Revised Date:</b> 31 December 2019
		<b>Financial Closing Date:</b> 30 June 2020	<b>Number of Extensions:</b> 1
<b>TA Type:</b> Policy and advisory TA			

### Description

The objective of this technical assistant (TA) project was to assist the Government of Azerbaijan in developing a Financial Recovery Plan (FRP) and road map directed at improving the financial performance and sustainability of the power sector of Azerbaijan.

The scope involved analyzing the existing situation in the power sector with regard to costs, administrative and operational issues as well as cost recovery from existing tariffs. Cost and revenue projections going forward until 2025 were then to be estimated and analyzed, based on existing structures of costs, tariffs and investment plans. At the same time, the major challenges for the sector's financial sustainability were to be identified and measures developed that would allow the power sector to become fully cost covering by 2022. A financial recovery roadmap was to be developed, comprising a set of prudent financial sustainability benchmarks, measures related to tariff reform, and other areas. The road map should include implementation schedules and action programs. Finally, the project was also meant to assist with communicating the tariff reform to the public and with institutional strengthening for the successful implementation of the financial recovery roadmap.

### Expected Impact, Outcome, and Outputs

Impact: Improved financial performance and sustainability of the power sector of Azerbaijan

Outcome: Development of a power sector financial recovery plan

Outputs: Phase 1: (i) calculating the real cost of electricity supply (power generation, transmission and distribution) and (ii) designing a new tariff structure for power generation, transmission and distribution with differentiating tariffs for different customers and different generation sources (hydro, solar, water, gas) in existence and in development, to replace the current single tariff for all customers and thereby allow cross-subsidization between customer classes. Phase 2: (i) developing a financial recovery road map for the gradual increase in tariff, to achieve a full cost recovery level by 2022 and (ii) undertaking a public informational campaign on tariff reform, case studies of good practices in other countries, and institutional strengthening.

### Implementation Arrangements

The TA which started in August 2016 was implemented by a consulting firm with expertise in tariff regulatory policy and financial assessment for the power sector in coordination with the project officer. A mix of international and national experts comprised the team. An international power sector tariff and regulatory expert was also hired as an individual consultant who delivered a general knowledge product on the financial recovery plan with the objective of encouraging public engagement in 20 working days. The selection and engagement of all consultants were carried out in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Office equipment were similarly procured by the consulting firm according to ADB's procurement guidelines. The TA supported the procurement of a desktop computer and printer to support the efficient preparation of workshop and training materials.

The TA was extended once in April 2019. The 6-month extension was necessitated by (i) the additional task of conducting an affordability analysis which was supposed to be undertaken by the World Bank and (ii) the government's request for support with implementation of the tariff methodology and calculation tools.

The consulting firm was engaged initially from 20 January 2017 to 29 March 2019 to render 27 international person-months and 22 national person-months inputs. Due to the additional task of conducting an affordability analysis, the

contract completion date was extended until 30 November 2019 and the actual inputs rendered increased to 32.61 international person-months and 25.57 national person-months. The TA also envisioned the engagement of a national individual consultant to perform TA coordination activities for 16 person-months. However, during implementation, the recruitment of an international power sector tariff and regulatory expert was deemed more important and relevant.

The TA utilized 98% of the approved amount to produce its deliverables.

### Conduct of Activities

All outputs outlined in the design and monitoring framework were achieved. For outputs 1 to 4, the final reports on (i) determination of real cost of electricity supply, (ii) tariff structure, (iii) financial recovery plan including the road map, and (iv) affordability of electricity tariff were approved by the government on 24 December 2018.

For output 5, a 4-day study tour in Germany was conducted for several members of the government stakeholders, with the purpose of supporting the financial recovery measures identified in the financial recovery plan, specifically measures on tariff regulation and efficiency improvements. A visit to a developed electricity market with a diverse structure of companies and pricing approaches was thought to address the current capacity building needs in the sector. A media training designed to support the capacity building of journalists and press-secretaries of the energy sector was also conducted. A knowledge sharing session at the ADB headquarters was conducted in May 2018 and training for the media was conducted in November 2019 to support the capacity building of journalists and press secretaries of the energy sector. Leaflets were also developed in May 2018 to introduce the Azerbaijan Energy Regulatory Agency (AERA) as the new regulatory agency to the wider public.

### Technical Assistance Assessment Ratings

Criterion	Assessment	Rating
Relevance	The intended TA outcome was aligned with stated development priorities and ADB strategies. The TA design clearly corresponded to the TA type as it related to policy advisory changes and capacity development. The TA rationale was well articulated.	Relevant
Effectiveness	The TA results were essentially achieved, and activities were completed satisfactorily. All five outputs were accepted by the government, though with some delays, and contributed to improve business processes of the newly established AERA.	Effective
Efficiency	The TA experienced an implementation delay of 1 year. Targets set were achieved within the budget, funds were used for the purposes intended and there were no financial reporting and procurement issues.	Efficient
<b>Overall Assessment</b>	The project was relevant and effective. Delay in project implementation did not affect efficiency. Overall rating is 2.35. The TA provided essential support to regulatory reforms.	Successful
<b>Sustainability</b>	Establishment of AERA during the project implementation period clearly demonstrates evidence of sustainability mechanisms. There is a high degree of support from the government and stakeholders. The likelihood of project benefits continuing beyond the project's lifecycle is substantial.	Most likely sustainable

### Lessons Learned and Recommendations

Design and/or planning	The technical soundness of the TA design and its adequacy were well-aligned with country partnership strategy (CPS) priorities and fitted government's program to help them to achieve financial cost recovery in the power sector.
Implementation and/or delivery	The TA implementation could benefit from better coordination between multiple stakeholders.
Management of staff and consultants	Substantial physical presence of TA consultants in the country was very helpful and achieved more buy-in of the government. The newly created regulator and its staff's proactive engagement during the implementation stage was key reason for the success of the TA deliverables.

Knowledge building	Media Training designed to support the capacity building of journalists and press-secretaries of the energy sector stakeholders also included dissemination materials such as posters and brochures contributing to awareness raising and communication strategy among the users. The tariff calculation mechanism produced under the TA has contributed to innovations and improved business processes.
Replication and/or scaling up	Replication of this TA can be considered if Tranche 2 of the multitranche financing facility is processed. This would enable to follow up and upstream the tariff policy advice.

#### **Follow-up Actions**

It is advisable to highlight the TA achievements in the 2019–2023 CPS final review.

ADB could also consider dedicated TA support to the ongoing energy sector reforms in Azerbaijan.

#### **Prepared by:**

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#### **Designation and Division:**

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## DESIGN AND MONITORING FRAMEWORK

<b>Impact</b> Improved financial performance and sustainability of the power sector of Azerbaijan (Government of Azerbaijan. 2012. <a href="#">Azerbaijan 2020: Look into the Future</a> . Baku).
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Results Chain	Performance Indicators with Targets and Baselines	Achievements
<b>Outcome</b>  Power sector financial recovery plan developed	The government accepts and approves the power sector financial recovery plan by September 2017	The technical assistance (TA) project supported the development of a power sector financial recovery plan which was accepted and approved by the government in December 2018.
<b>Outputs</b>  1. Real cost of electricity supply (power generation, transmission and distribution) calculated  2. New tariff structure for power generation, transmission, and distribution with differentiating tariff for different customers developed  3. Financial recovery road map for gradual increase in tariff, to achieve a full cost recovery by 2022  4. Affordability analysis of electricity tariff  5. Public information campaign, case studies of good practices in other countries, and institutional strengthening undertaken	1. Final report on determination of real cost of electricity supply approved by the government by March 2017  2. Final report on tariff structure approved by the government by March 2017  3. Final FRP, including the road map, approved by the government by September 2017  4. Final report on affordability of electricity tariff approved by the government by November 2017  5. Public information campaign, case studies, study tour, and training programs conducted by December 2017	1. The key input was the Financial Recovery plan (FRP), which was accepted by the government in December 2018. Subsequent approval of final report was not required as its main component was the FRP.  2. The key input was the FRP, which was accepted by the government in December 2018. Subsequent approval of final report was not required as its main component was the FRP.  3. The final FRP produced under the TA was accepted by the government in December 2018.  4. The final FRP produced under the TA was approved by the government in December 2018.  5. A Study tour in Germany was conducted in October 2019.  A knowledge sharing session at the ADB headquarters was conducted in May 2018.  Media Training designed to support the capacity building of journalists and press secretaries of the energy sector was conducted in November 2019

**Actual Key Activities with Milestones****1. Real cost of electricity supply (power generation, transmission, and distribution) calculated**

- 1.1 Conducted a comprehensive review and assessment of the Energy Sector Master Plan of Azerbaijan (2013–2025) and other relevant reports, and the financial performance of Azerenerji Open Joint-Stock Company (OJSC) and Azerishiq OJSC (first quarter [Q1] 2018)
- 1.2 Analyzed the gap between the current practice in Azerbaijan and international best practice in system planning and investment analysis, and identified the improvement measures (Q2 2018)
- 1.3 Developed a model and mechanism in determining the real cost of electricity supply in Azerbaijan's power sector, including in particular benchmarks for metering and acceptable levels of technical and commercial losses (Q3 2018)
- 1.4 Conducted stakeholder consultations and workshop (Q2 2017)

**2. New tariff structure for power generation, transmission, and distribution with differentiating tariff for different customers developed**

- 2.1 Analyzed the gap between the current practice in Azerbaijan and international best practice in tariff structure design, and develop a tariff structure that facilitates differentiated tariffs for different customers as well as different generation sources (hydro, solar, water, gas) in existence and in development in Azerbaijan's power sector (Q2 2018)
- 2.2 Conducted training and a study tour to learn international best practice in tariff design in the power sector (Q4 2019)
- 2.3 Conducted stakeholder consultations and workshop (continued until TA completion)

**3. Financial recovery road map for gradual increase in tariff, to achieve a full cost recovery by 2022**

- 3.1 Identified key activities and an appropriate strategy in designing a financial recovery road map based on multi-criteria analysis (Q2 2018)
- 3.2 Developed a financial recovery road map that included recommendations for capital restructuring, write-offs or a one-time settlement of intercompany debts, and actions for gradual increase in tariff to achieve a full cost recovery level by 2022; and identified cross subsidies and/or state budget support that may need to be provided until the full-cost recovery tariff (Q1 2019)
- 3.3 Conducted stakeholder consultations and a workshop to seek feedback (Q2 2019)
- 3.4 Finalized the road map and facilitate government review and approval (Q2 2019)

**4. Affordability analysis for supporting financial recovery road map and communication strategy**

- 4.1 Data gathering of household expenditure and income (Q2 2018)
- 4.2 Assessment of the current household affordability situation (Q3 2018)
- 4.3 Assessment of expected changes (Q3 2018)
- 4.4 Conclusion of affordability analysis (Q4 2018)

**5. Public information campaign, case studies of good practices in other countries, and institutional strengthening undertaken**

- 5.1 Developed media products (e.g. infographics, social advertisements) (Q3 2019)
- 5.2 Developed appropriate public information dissemination programs, including surveys, consultations, public hearings, and media interviews to enhance the public's understanding of the energy sector and tariff reform; and encourage public engagement (Q3 2018)
- 5.3 Facilitated the executing agency, the Ministry of Finance, and other stakeholders in project administration for effective project implementation; and provided on-the job training for key staff of stakeholders (Q3 2018)
- 5.4 Designed and organized a training and study tour for 5–10 staff of the key stakeholders in at least one other country to learn of the approach taken to implement tariff reforms and the impact these had on cost and service delivery structures (Q2 2019)
- 5.5 Prepared case studies of good practices in tariff reforms in other countries, and conducted workshop to disseminate the recommendations (Q2 2018)

**Actual Inputs**

Asian Development Bank: \$1,300,000 (Technical Assistance Special Fund-Others)

Source: Asian Development Bank.

**TECHNICAL ASSISTANCE COST BY ACTIVITY**  
(\$'000)

Item	Amount		
	Original	Revised	Actual
1. Consultants	1,110.0	1,222.0	1,247.3
2. Training, seminars and/or conferences	40.0	40.0	24.3
3. Miscellaneous TA administration	20.0	22.0	0.0
4. Studies, surveys and reports	0.0	1.5	1.4
5. Equipment	0.0	4.0	1.5
6. Contingency	30.0	10.5	0.0
<b>Total</b>	<b>1,200.0</b>	<b>1,300.0</b>	<b>1,274.5</b>

TA = technical assistance.

Source: Asian Development Bank estimates.