



RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
SECOND NATIONAL WATER SUPPLY AND SANITATION PROJECT
APPROVED ON MAY 27, 2008
TO
MINISTRY OF FINANCE OF AZERBAIJAN REPUBLIC

November 26, 2018

WATER GLOBAL PRACTICE

EUROPE AND CENTRAL ASIA

Regional Vice President:	Cyril E. Muller
Country Director:	Mercy Miyang Tembon
Senior Global Practice Director:	Jennifer J. Sara
Practice Manager/Manager:	David Michaud
Task Team Leader:	Hadji Huseynov



ABBREVIATIONS AND ACRONYMS

AAWM	Azerbaijan Amelioration and Water Management Open Joint Stock Company
AF	Additional Financing
HITC	Hovsan Innovation and Training Center
OP	Operational Policy
OJSC	Open Joint Stock Company
PAP	Project Affected People
PDO	Project Development Objective
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IP	Implementation Progress
ISR	Implementation Supervision Report
JPPR	Joint Portfolio Performance Review
SNWSSP	Second National Water Supply and Sanitation Project
WWTP	Waste Water Treatment Plant



Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

BASIC DATA

Product Information

Project ID P109961	Financing Instrument Investment Project Financing
Original EA Category Full Assessment (A)	Current EA Category Full Assessment (A)
Approval Date 27-May-2008	Current Closing Date 31-Dec-2018

Organizations

Borrower Ministry of Finance of Azerbaijan Republic	Responsible Agency Amelioration and Water Management Open Joint Stock Company
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Project Development Objective (PDO)

Original PDO

To improve the availability, quality, reliability and sustainability of water supply and sanitation (WSS) services in selected regional (rayon) centers in Azerbaijan.

Current PDO

To improve the quality and reliability of water supply and expand water supply and sanitation services in selected regional (rayon)centers in Azerbaijan.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-83810	15-Jul-2014	22-Oct-2014	22-Dec-2014	31-Dec-2018	150.00	132.59	17.41
IBRD-75180	27-May-2008	05-Sep-2008	13-Jul-2009	31-Dec-2017	230.00	230.00	0



IDA-43970 27-May-2008 05-Sep-2008 13-Jul-2009 31-Dec-2017 30.00 27.84 0

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

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I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. **Overall status.** The Implementation Progress (IP) and progress towards achieving of the Project Development Objective (PDO) are rated Moderately Satisfactory based on the results of latest implementation support mission dated October 22-26, 2018 and the latest ISR issued in November 2018. The project has largely met its PDO and fulfilled most of its results indicators with the exception of those related to wastewater treatment (due to construction of two Waste Water Treatment Plants (WWTPs) which are yet to be completed under the on-going AF). The original loan and credit are fully disbursed at 100 percent and closed on December 31, 2017 while the additional loan has disbursed 97 percent with \$17 million yet to be disbursed. Although the latest implementation support mission witnessed the progress with construction of referred WWTPs, those are unlikely to be properly finalized and tested by the project’s current closing date of December 31, 2018. On October 23, 2018 the Bank received a request from the Ministry of Finance of Azerbaijan to extend the project by six months.

2. **Institutional activities** under AF are progressing well. The key contracts for the procurement of training hardware and appliances, IT equipment, ISO standardization of training processes at Hovsan Innovation and Training Center (HITC) have been finalized. The construction of a training field has also been completed. This allowed to start with the training of key operational teams using facilities established under the project. The referred trainings have been followed up by the set of on-site on-the-job practice trainings at new facilities built in rayons covered under the project. The preliminary operational handover of completed assets to Azersu OJSC have now fully completed in Aghsu, Masalli, Ismayilli, Lerik, Yardimli and Jalilabad rayons and is pending in the remaining Siyazan and Shabran where construction of WWTPs is under finalization. As of today, all new water supply and sanitation facilities built under the project are operated by the Azersu and tariffs are collected from all new household connections installed under the project. Despite these advances, the sector is still financially weak as rayon water departments do not get sufficient funding and attention from Azersu’s Headquarter to operate and maintain the new assets. Azersu remains heavily dependent on government’s subsidies with no clear intention or business plan to improve its technical and financial performance. The Bank has discussed these issues during the last JPPR with Government and encouraged substantial institutional and corporate reforms and engagement of private capital and operators in the sector to mitigate the substantial risk posed to sustainability of project investments.

3. Fiduciary arrangements continue to be satisfactory and there are no outstanding audits. Environmental



safeguards are satisfactory while social safeguards are rated Moderately Unsatisfactory due to delayed compliance with the requirements of Resettlement Policy OP 4.12. The Project implementing agency has allocated the compensation to 97 percent of all Project Affected People (PAP) and the compensation documents for the remaining PAPs are currently under processing by the Government with plans to finalize by the end of this calendar year.

4. **Rational for extension of AF loan.** The team and client have prepared an action plan to complete the AF by the extended closing date. Extension will allow the client to: (i) Finalize two on-going contracts where construction and testing will continue beyond December 31, 2018; (ii) finalize the trainings for operational and maintenance teams and complete the operational hand over of tested facilities to operating company (e.g. Azersu OJSC); and (iii) ensure that the remaining PAPs are duly compensated and recommendations of social audit are implemented. The extension also allows to yield more results for the Implementation Completion Results Report (ICR) exercise which is being started by the team in parallel.

II. DESCRIPTION OF PROPOSED CHANGES

5. **Proposed changes.** This restructuring seeks to extend the Closing Date of the Second National Water Supply and Sanitation Project Additional Financing (SNWSSP AF) by 6 months from December 31, 2018 to June 30, 2019. This will be the second and final extension of the AF which will now be cumulatively extended for 18 months. There are no proposed changes to the PDO, implementation arrangements, disbursement categories, results framework or safeguards category.

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III. SUMMARY OF CHANGES

	Changed	Not Changed
Loan Closing Date(s)	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓



Disbursements Arrangements		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-75180	Closed	28-Feb-2013	31-Dec-2014, 31-Dec-2017		
IBRD-83810	Effective	31-Dec-2017	31-Dec-2018	30-Jun-2019	30-Oct-2019
IDA-43970	Closed	28-Feb-2013	31-Dec-2014, 31-Dec-2017		

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Second National Water Supply and Sanitation Project (P109961)
