

**Procurement Capacity Assessment Report and Recommendations**

<p><b>Proposed Project Name: Power Transmission Rehabilitation Project</b></p>	<p><b>Proposed Amount (US\$): \$37 million of ADB financing, EBRD parallel co-financing \$30 million, and \$13 million of government counterpart funding</b></p>
<p><b>Executing/Implementing Agency: Ministry of Energy and Natural Resources (MENR)/ Electro Power Systems Operator (EPSO) Closed Joint-Stock Company (CJSC), High Voltage Electrical Networks (HVEN) CJSC</b></p>	<p><b>Source of Funding: ADF \$37 million; EBRD parallel co-financing \$30 million, and government counterpart funding \$13 million</b></p>
<p><b>Assessor: Fichtner (Consulting Firm)/ T. Luo, Senior Energy Specialist, CWEN</b></p>	<p><b>Date: 27 Feb 2014</b></p>

**Expected Procurement**

The planned procurement will comprise (i) one turnkey contract for design, supply, and installation of supervisory control and data acquisition (SCADA) and energy management system (EMS); (ii) one turnkey contract for design, supply, and installation of equipment in two existing 220 kV substations; and (iii) consultancy services for project management and institutional capacity improvement.

**General Procurement Environment Assessment**

Risk Assessment: Low

Summary of Findings:

Armenia has comprehensive legislation on public procurement at national level, sub-legislation and regulation to implement. Full compliance to the law is required particularly in the areas of determination of non-price criteria for bid evaluation, procedures for prequalification, etc. The Procurement Law (PL) is applicable to all procurement carried out with the budget funds but it does not have specific provisions on concession contracts, rent and lease; utility companies are not specifically mentioned in the PL and procurement of items for national security and defense are excluded from open tendering.

Standard bidding documents are not yet finalized and approved although samples are in use. Procuring entities lack capacity to prepare technical specification which combined with the use of the lowest price as a major selection criteria leads to poor quality procurement.

Dispute resolution is handled by the Ministry of Finance which is also the authorized body to organize, regulate, dispense advice and coordinate procurement procedure. This raises the issue of potential or perception of conflict of interest. The PL does not clearly define level playing field for participation of State Owned Enterprises (SOEs) in tenders. Although there are multiple internal and external audit bodies carrying out control over public procurement the effectiveness of audits is questionable.

Although there is a semi-computerized system of procurement data, there is no sustainable strategy for collecting, maintaining and disseminating procurement statistics. No periodic reports on performance of public procurement are prepared and made available to the public.

The PL requires that people in the field of procurement participate in procurement specific training at least once in three years. This does not take place in present.

**Organizational and Staff Capacity**

Risk Assessment: Average

Summary of Findings:

Each IA's procurement staff comprises of three to four full time staff members with English language proficiency and sufficient qualification to undertake the additional procurement. The head of the department has only three to four years of experience and local training programs are not well scheduled. A procurement process manual for goods, works and consulting services is available and standard procurement documents were used under the other donors (World Bank, KfW) funded projects. Specifications and bidding documents are prepared with the assistance of technical consultants and approved by the financing bank and the ministry.

**Information Management**

Risk Assessment: Low

Summary of Findings:

All records are retained for 3-5 years after project completion. There is a referencing system for procurement files and adequate resources allocates to this infrastructure. Copies of original invitations documents, winning bids or proposals and contract administration papers are kept and available for inspection.

**Procurement Practices**

Procurement of Goods and Works

Risk Assessment: Average

Summary of Findings:

The bidding process is generally in line with ADB's standards. The evaluation bids in goods and works is done by a permanent committee and subject to additional approvals. With 10 months in average, it takes a remarkably long time from issuance of the invitation for bids up to contract effectiveness. HVEN has already undertaken foreign-assisted procurement of goods and works in reconstruction projects financed by KfW and World Bank, but EPSO has no previous experience with procurement funded by international financing institutes.

Consulting Services

Risk Assessment: Average

Summary of Findings:

Consultants are selected by QCBS method. HVEN has experience with selection of consultants from World Bank's supply reliability project but EPSO has no previous experience with consultant recruitment funded by international financing institutes. There is no measuring system for the outputs of consultants implemented.

**Effectiveness**

Risk Assessment: Low

Summary of Findings:

Contractual performance as well as payment obligations are systematically monitored and reported by the agency. There is a formal non-judicial mechanism for dealing with complaints and decisions are supported by written narratives.

**Accountability Measures**

Risk Assessment: Average

Summary of Findings:

The IAs oversight mechanisms include a standard statement of ethics and those involved with procurement have to declare any potential conflict. Some mechanisms require external approval outside of procurement department or evaluation committee from the bank and managing council what may lead to delays in implementation. There is no written auditable trail of procurement decisions that is attributable to individuals or committees.

<b>Summary Assessment</b>		
Both HVEN and EPSO have adequate resources and procedures to undertake procurement of consultancy services, goods and works. There is also already recent experience with foreign-assisted procurement of goods, works and consultancy services together with international donors. However, constraints with HVEN and EPSO still remain and the overall risk is average. Introduction of standard procurement documents as well as additional regular training for the staff is recommended during project implementation.		
<b>Specific Recommendations, Project Implementation</b>		
<b>Risks</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
IAs may have weak capacity to conduct procurement in a timely manner and lack adequate capacity on contracts administration.	International and national consultants with extensive experience with ADB and/or other donors funded projects will be engaged to address the constraint.	Project implementation consultants, HVEN, EPSO
<b>Capacity Constraint</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
All staff members lack adequate international procurement experience.	Trainings on ADB's procurement Guidelines and the use of ADB's standard documents will help to address the gap.	ADB, HVEN, EPSO Training of HVEN and EPSO staff should be on continuous and regular basis. ADB will provide training on templates that shall be used under the project plus evaluation of bids for both agencies during the project processing and implementation. Training by the project implementation consultants should be a continuous activity "on the job" training and the consultants should develop a comprehensive training program on procurement and contract management.
<b>General Recommendations, EA/IA</b>		
<b>Risks/Capacity Constraint</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
The staff has no job descriptions which clearly defines the roles and responsibilities covering each stage of procurement activity.	The IAs need to develop job descriptions for the staff with clear description of his/her role and value in the project procurement and may also allow for a rotation of roles and responsibilities in order to expand individual skills.	HVEN and EPSO
<b>General Recommendations, Procurement Environment</b>		

<b>Risk/Capacity Constraint</b>	<b>Recommended Action</b>	<b>Responsibility and comment</b>
<p>A number of constraints are the result of the inconsistencies of the national procurement law and international best practices.</p>	<p>ADB's review missions should constantly assess the sufficiency and consistency of the PIU's procurement records, and flag possible areas of concern in the manner procurement functions are being performed.</p>	<p>ADB, HVEN, EPSO</p>
<p>Information Disclosure</p>	<p>For the transparent purpose, all procurement notice including IFBs and contract awards shall be posted on EPSO and HVEN website, where all such information is made available to public free of cost.</p>	<p>HVEN, EPSO</p>