

Early Market Engagement

For an Intended Delivery of a New Student Accommodation Project in Baku as Public-Private Partnership (PPP)

The Government of Azerbaijan decided to use the country's prevailing BOT framework for the delivery of a new purpose-built student accommodation (PBSA) for and Azerbaijan State University of Oil and Industry (ASOIU) in Baku. It is intended to be the first PPP project to be contracted in Azerbaijan, potentially to become an example as a template for further projects.

The procurement is intended to be carried in the first half of 2021, in accordance the *"Rules on the implementation of the infrastructure projects (hereinafter "the Rule") by investors under the BOT model, requirements to the investors, terms and conditions of contracts and determination of the cost of the use of utility delivered under such projects"* approved by the Decree of the President of Azerbaijan Republic dated 7 December 2016, No 1149

Preliminary feasibility studies were prepared by KPMG Azerbaijan with the support of the Asian Development Bank (ADB).

The Ministry of Education (an Implementing Agency) and the Ministry of Economy (as an Executing Agency), together with the ASOIU, are now interested in hearing views of the potentially interested investors and operators in the student accommodation area, before finalising the scope of the project and commencing a competitive procurement process (tender).

IMC Worldwide Ltd. is acting as a Transaction Advisor to local Stakeholders and is carrying out this Early Market Engagement process, providing information on the intended Project, and collecting views and suggestions from potentially interested private sector organisations.

You are invited to contact us for more information on the forthcoming opportunity and to arrange an on-line discussion:

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Azerbaijan State University of Oil and Industry (ASOIU)

ASOIU is a public tertiary education institution of Azerbaijan, established in 1920 with the focus on training engineers in a broad range of industries, from agriculture to oil. By 1923, the school graduated its first students.

ASOIU accounts for just over 6% of students studying in all universities around the country. Total number of students studying at ASOIU is 10,642 students, of which 9,507 students (89%) study for bachelor and 1,135 (11%) for master's degree. Most of ASOIU students (9,810) study full time (92%), compared to 832 part-time and/or correspondence students.

The university has agreements for exchange of students, academic and administrative staff with the Erasmus and partner institutions. ASOIU offers the Master of Business Administration (MBA) program in cooperation with Georgia State University, USA.

During the last five years, the number of students admitted to ASOIU from regions outside of Baku was nearly equal to the ones from Baku. In 2018, of a total of 2,746 students were admitted, nearly 50% were non-Baku students. Furthermore, the growth in the number of non-Baku students has been steady and between 2014 and 2018, the number of students from outside Baku increased by almost 80%.



International students in ASOIU formed 4% of the total student enrolments in 2018 - a total of 455. Over the last five years, in ASOIU, the number of international students has fluctuated between 300 and 500. In 2013, after the sharp decline of 30%, there was a rapid surge of admission to 410 in 2015/2016 academic year, followed by a slight fall to 346. There was a strong return of the international students in 2018, with growth of around 30%.

Consequently, there is substantial demand for student accommodation at ASOIU not met by limited existing facilities at the University. Demand for student accommodation mainly emanates from full-time students originating from overseas or outside of Baku. Students who originate from Baku are only likely to stay in the student accommodation if the accommodation is affordable and/or the commuting time to university campus is otherwise excessive.

Based on annual admission analysis of ASOIU, one can assume that students from outside Baku comprise of approx. 50% of total student numbers. This is a key target market, in addition to the international students studying on the campus. ASOIU has over 10,000 students with some 450 international students currently studying at the university. Thus, a substantial number of students seeks accommodation to rent on an ongoing basis. ASOIU has some 300 places in an existing student accommodation facility and further 880 new beds available from 2019, bringing the total of beds available for ASOIU students to 1,180. Based on future growth in enrolment and current challenges faced in meeting the demand, the University is seeking more accommodation to ease substantial dependence in sourcing accommodation for its students from the private housing market.

Lack of availability of quality student accommodation in Baku has been perceived by local Universities, as a major impediment to sustainable growth in student enrolments in Azerbaijan, especially

international students and regional students coming from outside of Baku. To this end, provision of student accommodation in higher education institutions is one of the key interventions needed by universities to enhance growth, and retention, in student enrolments and to align their provision with global standards.

Currently, there are international students from 76 countries studying in Azerbaijan. Enrolment in international students grew since 2016, reaching 6,456 for the academic year 2017-2018 (growth of 47%). The need for student accommodation is felt the most by international students, suggesting sufficient demand from this segment.

There is some dormitory accommodation in Baku, some from the Soviet era. These are old, not maintained and (where not occupied by Internationally Displaced People (IPDs)) are preferentially allotted to students on a first come first served basis. Construction of new dormitories to meet demand is held up by the shortage of capital. Parents and students continue to pay high rents for private accommodation options. There is therefore an immediate need for development of student accommodation in Baku.



The Project

The ASOIU project aim to provide some 1000 – 1100 -bed new purpose-built student accommodation (PBSA) in Baku, by partnering with a suitable private sector partner who will undertake to design, build, finance, and operate the infrastructure, facilities and accommodation services to the student population and visitors of ASOIU, under a long-term Public-Private Partnership (PPP) - type contract. Private sector is expected to deliver the facilities and sustainable services with no recourse to State resources, while providing good level and quality amenities and services to residents.

The following assumptions currently exist for the Project:

- The facility, at the existing site owned by ASOIU, to accommodate around 1000 - 1100 residents (including 50 studio-type rooms in staff hotel facility) in two or three separate blocks for male and female students, and visiting guests/staff (VIP block) in combination of studio style (for VIP), single, twin and quad room configuration; all rooms en-suite with secure access;
- Current preference is for majority of twin and quad rooms for student residents, but some single rooms should be included for foreign students;
- For the purpose of the development, the University makes available the existing land in Baku;
- Land available is a brown site of 0.8 - 1.0 ha (of total available area of 1.17 ha) with the dimensions of 84 m x 95 m. There is potentially some demolition required but recent studies indicate no significant environmental or social issues expected;

- Available land adjacent to the site currently containing a newly built and privately operated dormitory and is some 10 – 15 minutes away from the main ASOIU complex;
- Bidders are expected to consider the facility structure to provide full board catering to residents, 24/7 canteen, possibly self-cook facilities and ancillary elements, gym/fitness facility, study/computer rooms and library areas, cleaning and laundry options, access to internet and TV signal;
- Commercial areas to be leased to commercial operators are envisaged, limited to a set size (ca. 15% of total area) but may include mini-market, fast-food operations, etc.;
- The private investor will be free to design the structures at his discretion however the prevailing regulations of Azerbaijan will need to be observed and separation of VIP, female and male blocks provided. It must be operated and maintained within an agreed schedule to maintain its quality and functionality (periodic exchange of fixtures and fittings included), with necessary redundancies to ensure uninterrupted services and swift emergency remedial actions; energy efficiency and other innovative solutions lowering operational costs will be expected; ASOIU expects to have control of quality and delivery of the above;
- Bidders will submit their proposed accommodation and service charge tariffs to residents/service users considering current market conditions. However, ASOIU wishes to provide some of the rooms at social-level accommodation fees to poorest students and prospect investor/operator will be expected to provide a comprehensive accommodation fee tariff taking that into account;
- Residents are expected to be offered typical services for a modern Purpose-Built Student Accommodation but may be offered different packages of room/bed + catering level included in the room fee (accommodation only, bed & breakfast, bed & full board); it is, however, expected that access to fitness facilities will be free to residents (chargeable to external members); internet access is expected to be free to residents but laundry, parking and other such additional services may be chargeable in addition to the accommodation fee;
- The facility will be expected to be constructed within ca. 2 years and a BOT Agreement/concession will run for minimum of 15 to 20 year after construction period, but an option of early buy-out of the facility/agreement may be considered;
- The project is expected to be financially self-sustainable and be delivered and operated without recourse to State budget funds.

The subsets of the facility (building and equipment) and services specifications for the new PBSA, considering the ASOIU vision and the developments in the sector worldwide, are listed below. The following elements are either core requirements or desirable extensions to be considered when developing the new PBSA:

Core Facilities:



1. Accommodation – student room
 - a. En-suite bathroom/toilet (shower + hands basin + mirror)
 - b. Single bed + linen per resident
 - c. Desk + chair with electric and data connection, bookshelf per student
 - d. Desk and bedside light
 - e. Cloth storage/hangers
 - f. Secure lock
2. Accommodation – VIP/Staff room
 - a. En-suite bathroom/toilet (shower + hands basin + mirror)
 - b. Cooking and food storage equipment (kitchenette)
 - c. Double bed + linen
 - d. Desk + chair with electric and data connection, bookshelf/case
 - e. Coffee table with chair(s)
 - f. Desk and bedside light
 - g. TV set
 - h. Telephone
 - i. Cloth storage/hangers
 - j. Secure lock
3. Self-cook kitchen/dining area with suitable food storage, ideally at every floor at student residences and in each VIP room
4. Laundry facility (self-service)
5. Study/library areas (computer room)
6. Gym/Fitness Club
7. Room for basic medical attention (first aid or occasional consultancies – not a surgery).

Core services:

1. Utilities: electricity, cold and hot water uninterrupted supply, heating - seasonal
2. Self-service canteen facilities 24/7 (basic food vending, tea/coffee makers, microwave)
3. Access to kitchenettes throughout residential areas – 24/7
4. Laundry: self-service laundromats (coin, card, access-token operated) – chargeable
5. Internet access (Wi-Fi) all areas – free to residents, unlimited
6. Access to gym/fitness facilities – free to residents, timed
7. Access control and security staff

Potential further facilities and services:

1. Catering facility: kitchen and sitting area suitable to serve ca. 1000 persons, 3 x day; selection of residential packages to be considered inclusive of room accommodation and any selection of food servings to be on offer, hours of operation 6 – 22/7 days
2. Room cleaning – chargeable
3. TV and other equipment rental for students – chargeable
4. Storage facilities

PPP Transaction Structure

Within the prevailing BOT framework of Azerbaijan, the Ministry of Economy of the Republic of Azerbaijan approved the project proposals submitted by the Ministry of Education of the Republic of Azerbaijan for the delivery of the PBSA to be implemented within the Build-Operate-Transfer (BOT) framework as a Public Private Partnership (PPP) long-term transaction. This also involves creation of

a Special Purpose Vehicle (SPV) - a locally registered company for the delivery and operation of the Project.

The Project Procurement will be in accordance the “*Rules on the implementation of the infrastructure projects (hereinafter “the Rule”) by investors under the BOT model, requirements to the investors, terms and conditions of contracts and determination of the cost of the use of utility delivered under such projects*” approved by the Decree of the President of Azerbaijan Republic dated 7 December 2016, No 1149

The implementing agency for this project would be the Ministry of Economy of the Republic of Azerbaijan (MOEc).

The principal terms and conditions governing the transaction would be covered in the BOT (Concession) Agreement, which will provide for the obligations of the MOEc and the Private Project Proponent in respect of the development and operation of the infrastructure, and other related services, covenants, and conditions to be performed or fulfilled by each of the parties.

The Private Party will be expected to finance the development and construction of the PBSA and recover its capital and operational costs, and profits through the operation of the facility and related services, under the concession agreement. The Concession period is envisaged to be approx. 20 years, excluding some 2 ½ years for the infrastructure development and construction period.

The Private Project Proponent would be required to undertake design, construction, financing, operations and management of the university student accommodation Infrastructure and provide respective services to residents and assume related risks arising from cost overruns, delays and other performance risks connected to implementation of the accommodation infrastructure and services.

Once the facility is constructed, the Private Party would transfer the accommodation Infrastructure to the Ministry of Economy (MOEc) and retain, via SPV, the right to operate and maintain the infrastructure, under the terms of the respective Concession Agreement

ASOIU will be the ultimate beneficiary of the Project taking over the facilities at the end of the concession period. Therefore, it seeks a degree of management insight and control of the development, construction and operation process of the new accommodation facility and services.

The University is the owner of the land (location of the Project) and will be designating specific plot in the location for the development of the PBSA buildings.

Private Project Proponent Role

Generally, the private sector partner shall be responsible for providing the following operations and maintenance services to the student accommodation facility.

- i. **Design** - when designing the facilities, it is expected that the private sector partner will design in provision for efficient operation and maintenance, which will be consistent with the Minimum Performance Specification Standards, as specified by the respective tender documents. Expectation is for application of most recent environmentally friendly and innovative technologies for energy efficiency and cost effectiveness of facilities operations.
- ii. **Construction delivery** – private partner will organise, manage and supervise the entire construction process both for the structures/buildings, site infrastructure and landscaping as well as fitting out and furnishing of the facilities according to the approved

project/design and respective contract; the purpose is to deliver a turn-key facility within the agreed timeframe.

- iii. **Ongoing operation** - operate facilities that are designed to improve the quality of the student experience. The private sector partner would enable adoption of principles that will: • foster a collegial campus experience • increase interaction between onshore international students and domestic students • encourage student engagement in the resident-initiated and organised clubs, societies and activities • provide a structured student guidance program to ensure the physical and mental wellbeing of residents • perform the property management function covering issues such as landlord responsibilities, rent and rates, administration and charging, insurances and financial performance. • arrange for the continuing provision of telephone and internet connectivity, utilities - waste disposal/ recycling, security, fire safety, buildings, plant and grounds maintenance, cleaning, laundry, concierge service to residents, etc.
- iv. **Lifecycle maintenance** - complete necessary lifecycle maintenance on the facilities to a level that ensures good working standard at the end of the Operations Period. • carry out a maintenance schedule that ensures continuity of the agreed levels of service.

The private sector partner will be expected to meet standard performance criteria while operating the facility, including continuity of operations and key services (utilities, heating, ITC/internet provision, availability of accommodation spaces, etc.), maintaining agreed response and rectification times to emergencies and failures.

In repayment for financing, construction, operating and maintaining the Infrastructure, the Private Project Proponent will be directly charging residents and tenants of the developed property. However, alternative arrangements with the University to collect and transfer fees may also be possible.

This will include revenues from the commercially operated elements of the facility and sale of ancillary services, that may be incorporated into the facility structure.

Whilst the University will arrange recruitment of residents there will be a separate relationship of Landlord and Tenant between the Operator and students (residents) by a written contract for the provision of residential accommodation, regulating contractual terms and responsibilities of both.

It will also regulate specific issues such as health, safety and welfare matters, conduct and behaviour and guidance on communal living. The Operator will arrange for their own insurance liabilities, including in respect of a student's belongings and personal items. The Operator will also deal with tenant issues and support, for example, students wishing to leave, inter-tenant friction, noise and anti-social behaviour, mental health problems.

BOT Regulatory and Legal Framework

The Government of Azerbaijan has a keen interest in developing Public Private Partnerships and has established some of the respective regulatory framework for this type of projects, focused on the BOT model. However, the country has not delivered to date a fully developed PPP project/transaction, and consequently, the current student accommodation venture is seen as a pilot project to guide further development of the enabling framework and practice for PPP transactions.

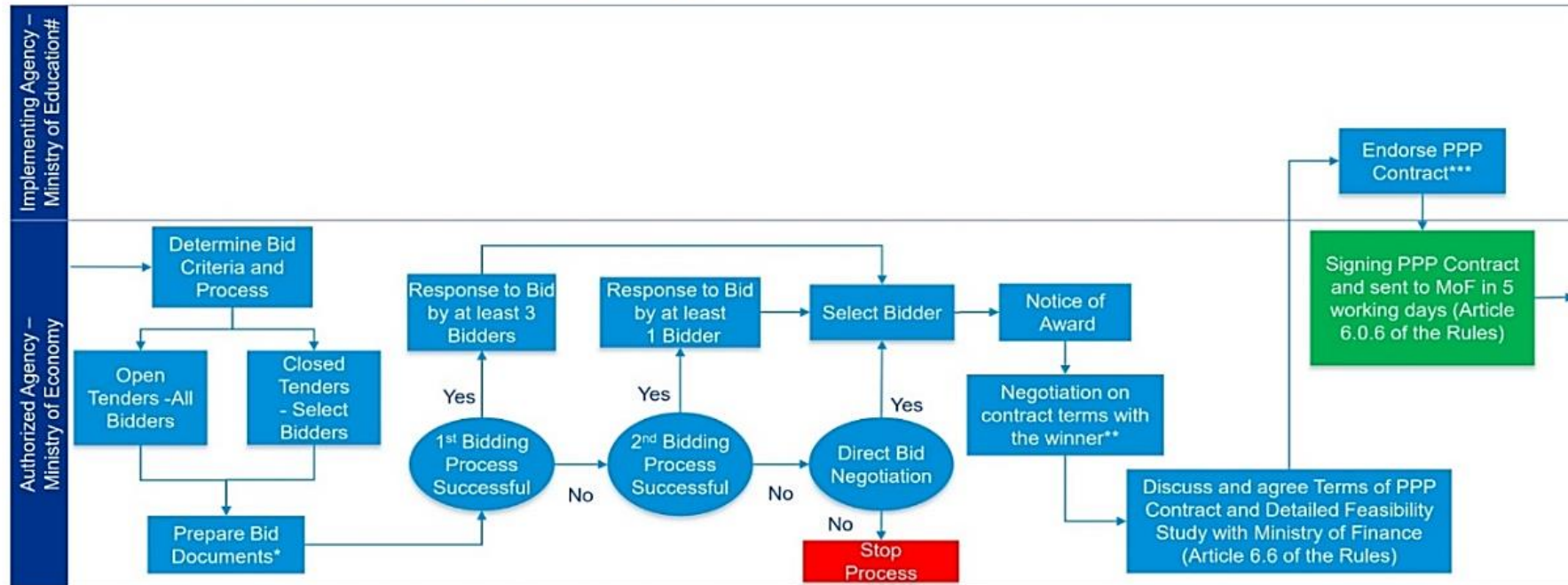
Although the country has no integrated PPP law and institutional structure, it has been building up towards that type of procurement for some time. Specifically, such key elements of the enabling environment have been put in place, as:

- the Law No. 177VQ/2016 on Implementation of Special Financing for Investment Projects in Connection with Construction and Infrastructure Facilities (**BOT Law**),
- or the Presidential Decree No. 867/2016 and 1149/2016: the Rules on the implementation of the infrastructure projects by investors under the BOT model, requirements to the investors, as in accordance with type of construction and infrastructure projects, terms and conditions of contracts, and determination of the value of the goods and services obtained as a result of investment (**BOT Rules**).
- Decision of the Board of the Ministry of Finance No. Q-06, dated 22 May 2017 on “Approval of the Rule on Methodology for Calculation of Cooperation Assistance and Guarantee Commitment Charges under Contracts signed within “Build-Operate-Transfer Model” (**MOF Rules**)

Provisional Calendar

Late-May 2021	Announcement of Public Tender - Issuance of Request for Proposal
Mid-July 2021	Deadline for Proposal Submission
August 2021	Announcement of Tender Results
September 2021	BOT Contract signing

Procurement and contracting



The Implementing Agency may involve its Project Agency as it deems fit during the procurement and contracting stage.

*Bidders prepare Detailed Feasibility Study and determine guarantees required for the Project, submit FS and other relevant documents in response to the Request for Bids from MOE as per the Articles 2.1, 3.6 and 5.10 of Rules.

**As per the articles 5.18, 5.19 and 5.21 of the Rules, upon review and evaluation of bidding offers and added documents, Bid Commission determines the final points of each participant and announces the winner with the highest points. Once the notice of award is announced, the contractual issues initiate.

*** The process of contract endorsement by MoEd is not stipulated in the domestic law, however according to the international best practice

10

Document Classification: Confidential

Disclaimer

Information contained in this Information Memorandum (IM) document is for reference purposes at the Early Market Engagement period only. The information and terms and conditions contained in the Request for Proposals (RfP), Instructions to Bidders, the BOT Agreement and its Annexes, including the Minimum Performance Standards and Specifications shall be made available as separate documents to the bidders once the formal procurement process starts, and only then shall be considered binding upon the bidders. In case of any conflict between the information and terms in this IM and the RFP, BOT Agreement and its Annexes, including the Minimum Performance Standards and Specifications, and the Instructions to Bidders, the information and terms specified in the RFP, BOT Agreement and its Annexes, including the Minimum Performance Standards and Specifications and the Instructions to Bidders, shall prevail.

This IM does not purport to be all-inclusive or to contain all of the information that a bidder may consider material or desirable in making its decision to participate in the bidding. No representation or warranty, express or implied, is made, or responsibility of any kind is or will be accepted by the Ministry of Economy (MOEc), or the Asian Development Bank (ADB) or any of its agencies, and IMC Worldwide Ltd (IMC) or any of its consortium members with respect to the accuracy and completeness of the information contained in this IM.

The MOEc, ADB of IMC may amend or replace any of the information contained in this memorandum at any time, without giving any prior notice or providing any reason. In furnishing this IM, the MOEc or the ADB or IMC, or any of their agencies undertake no obligation to provide recipients with access to any additional information, or to update, or to correct any inaccuracies which may become apparent in this IM or any other information made available in connection with the project. Additional information shall be provided at appropriate times during the bidding process by way of supplemental bid documentation.

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This memorandum does not constitute a solicitation for bids and is for information purposes only. Solicitations of bids and the bidding process shall be prescribed in the Instructions to Bidders, provided separately as part of the bid package.

The purpose of this IM is to establish an Early Market Engagement for prospective bidders and provide general information on the assessment of project potential and related informational aspects of the University Student Accommodation PPP Project. Information contained in this IM shall provide an overview of the project development and its related aspects for reference purposes and information contained herein may be put to use, subject however to the prospective bidders' own discretion and conduct of due diligence.

Information provided in this document is sourced from and based on studies and surveys conducted in 2018 -2019 by KPMG for the ADB-funded Piloting Delivery of University Accommodation and Services in Baku through Public-Private Partnership Project under the ADB administered Asia-Pacific Project Preparation Facility TA9292-REG. IMC and ADB assume no obligations in relation to truthfulness, completeness and adequacy of the information provided herein and especially legal issues, including interpretation of laws or contracts. We did not study the issue of legal status and proceeded from the premise that the declared right of the owner to the property was substantiated. Unless otherwise specifically stated, we did not check property for the existence of a lien or other encumbrance. We proceeded on the assumption that all of the requisite licenses, permits, etc. are valid. We assume no liability for the applicability of the approaches used in the Inception Report as evidence during consideration in any court or jurisdiction. The use of the Report as findings in a court of any instance is to be decided at the discretion of the Company and its legal advisor. Anyone using this Document should perform their own analysis and due diligence check, including of the assumptions used by KPMG and authors. IMC and ADB assume no liability or obligations related to costs, damage, losses or expenses sustained by a third party in relation to use of the Document and information herein provided.