

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA13337

<b>Project Name</b>	REGIONAL ROADS DEVELOPMENT PROJECT (P122200)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Azerbaijan
<b>Sector(s)</b>	Rural and Inter-Urban Roads and Highways (65%), Public administration- Transportation (35%)
<b>Theme(s)</b>	Infrastructure services for private sector development (25%), Trade facilitation and market access (25%), Administrative and civil service reform (25%), Rural services and infrastructure (25%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P122200
<b>Borrower(s)</b>	Republic of Azerbaijan
<b>Implementing Agency</b>	AzerRoadService (ARS)
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	26-Sep-2014
<b>Date PID Approved/Disclosed</b>	29-Sep-2014
<b>Estimated Date of Appraisal Completion</b>	03-Oct-2014
<b>Estimated Date of Board Approval</b>	25-Nov-2014
<b>Decision</b>	The meeting authorized appraisal

**I. Project Context**

**Country Context**

Azerbaijan is the largest country in the South Caucasus with a population of about 9.4 million. It is bounded by the Caspian Sea to the east, Russia to the north, Georgia to the northwest, Turkey and Armenia to the west and Iran to the south. Driven by a natural resource boom, Azerbaijan's economic growth averaged 16 percent a year during 2002-10. A decline in oil production brought down the pace of economic growth in 2011. Growth has recovered to a 5.8 percent in 2013 and an estimated 5.2 percent for 2014. The government's objective is to diversify the economy through the development of human and physical capital and institutions.

Azerbaijan has secured a middle income country status with a GNI of US\$7,350 per capita. Poverty declined from 46.7 percent in 2002 to 5.3 percent in 2013, which is one of the fastest rates of reduction in the world. Azerbaijan also achieved a significant decline in inequality. Unemployment has fallen over the last decade from 10 percent in 2002 to 4.5 percent in 2013, in part reflecting a sharp drop in labor force participation but also through the creation of more than a half a million jobs since 2000, with agriculture, construction and services accounting for around three quarter of

this increase in jobs. Social transfers including pensions and Targeted Social Assistance have played an important role in reducing poverty with almost two thirds of households receiving some form of social transfers.

Fiscal policy has been expansionary in the past few years with a quadrupling (in nominal terms) of consolidated government expenditures between 2006 and 2013. This is faster than the growth in nominal GDP. In 2014 government expenditures are expected to reach nearly 40 percent of GDP, up from an average of 30.5 percent during 2006-11. Much of this increase is driven by public investments aiming at boosting the economy. The growth in spending has largely been financed by an increase in transfers from the Oil Fund, accounting for 52 percent of expenditures in 2013, with a commensurate reduction in the share of oil revenues assigned to savings. Given the finite nature of forecasted oil revenues, the government needs to ensure that public spending is efficient and state investments, once made, are sustained.

### **Sectoral and institutional Context**

Roads are the dominant transport mode in Azerbaijan accounting for 60 percent of freight and 90 percent of passenger transportation. The road network under the responsibility of the state owned road agency, Azeryolservis OJSC, consists of magistral roads (1,654 km), republic roads (1,795 km) and local roads (9,867 km). During the last decade, the sector's institutional framework has evolved through the establishment of a transport ministry and ARS. The Road Law adopted in 2000 still provides the legal, technical, economic and institutional framework for the road sector. This law was amended in 2013 to introduce tolling and improve axle load control. A Road Fund was reinstated in 2007 to improve financing for the sector. The government started addressing traffic safety through development of a State Road Safety Strategy and Action Plan developed under the Second Highway Project financed by the Bank.

Until recently, the investment program was concentrated on highway upgrading and high priority republic roads segments. The Government has invested a total of about AZN10 billion into upgrading the road infrastructure from 2005 to 2013. Total lending from International Financial Institutions including the World Bank, EBRD, ADB and Islamic Development Bank between 2005 to 2013 amounted to AZN2.7 billion covering 27 percent of total investment. The World Bank supported Azerbaijan's road investment program through the Highway, Second and Third Highway projects, which totaled about US\$1 billion in lending. Financing for the upgrade of the main arterial roads is in place and the focus is now shifting to the lower network roads. From now until 2018, works will continue on rehabilitation of republic roads and priority sections of local roads. Rehabilitation program for local roads is planned to be completed by 2023.

Maintenance practices are still traditional force account even though the budget for maintenance has increased from AZN30 million in 2005 to AZN222 million in 2013. At present, road maintenance in Azerbaijan is carried out by 63 road maintenance units as in-house operations. Inefficiencies exist in maintenance practices, equipment and organization of works. Due to rehabilitation backlog, especially on local roads, a significant portion of the road maintenance budget is used for periodic maintenance, rehabilitation and emergency pavement repairs.

## **II. Proposed Development Objectives**

The proposed project development objectives are (i) to improve access to markets and services through the development of project roads and (ii) to progress towards maintenance sustainability of

the road network. The road network consists of magistral (M) roads (1,654 km), republic (R) roads (1,795 km) and local (Y) roads (9,867 km).

### III. Project Description

#### Component Name

Component 1: Regional Roads Reconstruction and Rehabilitation

#### Comments (optional)

#### Component Name

Component 2: Institutional Strengthening for Maintenance and Management of the Road Network

#### Comments (optional)

#### Component Name

Component 3: Support for Roads Related Development

#### Comments (optional)

#### Component Name

Component 4: Project Implementation, Monitoring and Impact Evaluation

#### Comments (optional)

### IV. Financing (in USD Million)

Total Project Cost:	368.45	Total Bank Financing:	250.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			118.45
International Bank for Reconstruction and Development			250.00
Total			368.45

### V. Implementation

The project will be implemented by Azerroadservice OJSC (ARS) under the supervision of the Ministry of Transport (MOT), the policymaking and regulatory authority in the transport sector. The MOT and ARS have extensive experience in implementation of the World Bank-financed operations. The existing project implementation unit (PIU) responsible for the implementation of Bank financed Highway Projects will support the proposed project. The PIU is staffed with seasoned local consultants, including technical, procurement, and financial management staff. In the recent few years, the PIU has engaged a Deputy Director, a Safeguards Specialist, and a Monitoring and Evaluation Specialist. In addition to existing PIU staff, the project will provide dedicated support for the implementation of the maintenance modernization component through hiring of consultants.

### VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>x</b>	
Natural Habitats OP/BP 4.04		<b>x</b>
Forests OP/BP 4.36		<b>x</b>
Pest Management OP 4.09		<b>x</b>
Physical Cultural Resources OP/BP 4.11		<b>x</b>
Indigenous Peoples OP/BP 4.10		<b>x</b>
Involuntary Resettlement OP/BP 4.12	<b>x</b>	
Safety of Dams OP/BP 4.37		<b>x</b>
Projects on International Waterways OP/BP 7.50		<b>x</b>
Projects in Disputed Areas OP/BP 7.60		<b>x</b>

**Comments (optional)**

The EAMP has been disclosed in-country and at the Info Shop on August 11, 2014. The RPF was disclosed in-country and at the Info Shop on August 6, 2014.

**VII. Contact point****World Bank**

Contact: Elizabeth C. Wang  
 Title: Senior Financial Officer  
 Tel: 473-1346  
 Email: ewang@worldbank.org

**Borrower/Client/Recipient**

Name: Republic of Azerbaijan  
 Contact: Samir Sharifov  
 Title: Minister of Finance  
 Tel: 994124938103  
 Email: info@maliyye.gov.az

**Implementing Agencies**

Name: AzerRoadService (ARS)  
 Contact: Adil Gojayevev  
 Title: Director, Project Implementation Unit  
 Tel: (994-12)493-0045  
 Email: info@piu-ahp.az

**VIII. For more information contact:**

The InfoShop  
 The World Bank  
 1818 H Street, NW  
 Washington, D.C. 20433  
 Telephone: (202) 458-4500  
 Fax: (202) 522-1500  
 Web: <http://www.worldbank.org/infoshop>