

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2718

<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>	Specific Investment Loan
<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>	15-Jan-2014
<b>Date PID Approved/ Disclosed</b>	16-Jan-2014
<b>Estimated Date of Appraisal Completion</b>	02-May-2014
<b>Estimated Date of Board Approval</b>	16-Oct-2014
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

Azerbaijan is the largest country in the South Caucasus with a population of 9.4 million. Azerbaijan covers an area of about 86,600 square kilometers 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. The country is rapidly urbanizing with 52 percent of the population residing in urban areas, although rural areas still account for a large share of population. Like in some other developing countries, there is a disparity in income between the urban and rural areas in Azerbaijan.

Since independence, oil and gas discoveries have given Azerbaijan new means of combating poverty and developing a diversified, sustainable middle-income economy. Economic growth averaged 13 percent a year during 2002-12 and Azerbaijan transitioned into a middle-income country. Azerbaijan's GDP per capita rose from a post-independence low of just US\$470 in 1995 to

\$7,392 in 2012. The growth in Azerbaijan along with social transfers, and especially pensions and targeted social assistance, played an important role in reducing poverty from 49 percent of the population in 2002 to 6 percent in 2012.

One of the major priorities of the Government is to develop the non-oil sector as oil production is declining; although natural gas production is expected to grow. The government realizes the need for change and has prioritized diversification of its assets through the adoption of Vision 2020 in December 2012. The vision statement envisages a doubling of the country's per capita income to \$13,000 by 2020 through an average annual growth of over 7 percent. The objective is to become a diversified and competitive high income country by focusing on the development of assets: human and physical capital and institutions. On physical capital, the focus is essentially on transport sector with the objectives of improving road connectivity through the east-west and north-south transport corridors over the current decade. It also intends to promote specific exports and develop industries to achieve regional development.

### **Sectoral and Institutional Context**

Since the middle of last decade, Azerbaijan has embarked upon a major road development program which has stimulated growth. Traffic on major road corridors has increased substantially, more than projected. The development of the country's road network supports the Government's agenda to diversify its economy and stimulate non-oil growth by improving access to markets and promoting regional development. Much of the funding for road investment has been from the state budget. The Bank has supported the Government's programs with three highway projects, with total investment of about US\$1 billion since 2001. The Bank cooperates with other development partners, such as the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB), which are also active in the road sector of Azerbaijan. Until now, the investment program has been concentrated on the highways (Magistral or M roads). While the upgrading of the M roads is still a work in progress, the emphasis is shifting to lower network roads – the regional/republic roads (R roads) and the local roads (Y roads), the condition of which is far from satisfactory. Only 32 percent of the republic roads, and 12 percent of the local roads are in good condition. The poor condition of the republic and local roads is one of the road sector development gaps which the proposed project will address. The R and Y road networks in Azerbaijan have deteriorated to such conditions that full scale reconstructions are needed in many cases. A large proportion of the R and Y roads were constructed to standards that are no longer relevant to current traffic and maintenance has been neglected for decades. As a result, there is a large rehabilitation backlog in this part of the network which requires substantial investments for bringing it to maintainable condition. In this regard, ensuring value for money necessitates exploring cost effective design approaches. The proposed project will follow this path by applying lessons learnt from on-going highway projects including systematic use of value engineering and more efficient design standards.

As the road assets are improving, the institutional challenges of the road sector need to be addressed and the pace of institutional change needs to be enhanced. Institutional aspects of the on-going portfolio provide a foundation. The Highway Project approved in 2001, included an institutional development component that initiated road sector modernization in Azerbaijan. In 2003, the Ministry of Transport was created, in 2007, the Ministry of Finance reinstated the Road Fund, and in 2008 AzerRoad Services (ARS) was established as a joint stock company following good practices elsewhere by dividing policy functions in the Ministry and management and administrative functions in ARS. Under the on-going Second Highway Project, an amendment to

the Road Law was prepared, a Road Database was established and staff were trained to maintain and use the database, a traffic and road safety strategy was developed and a road sector master plan is well advanced. Under the on-going Third Highway Project, the concept of motorway maintenance and management is being explored. Also ARS is preparing with consultants the State Program for Roads for the period 2014 to 2023. Meanwhile, EBRD and ADB have provided additional technical assistance in road maintenance, road safety, tolling, axle load control, capacity building for ARS personnel and some other areas. Maintenance funding through road users charges is substantial, in excess of US\$ 250 million annually. However, the efficiency of maintenance expenditure has to be improved. Given the pace of road investments, modernization of road maintenance practices is essential to sustainability.

### **Relationship to CAS**

The proposed project supports two main pillars of the Azerbaijan's CPS FY 11-2014. One of the pillars is improving efficiency of infrastructure and, specifically, of transport infrastructure. The Government assigns a high priority to infrastructure projects as a critical element to develop and maintain internal connectivity and regional development. The other pillar is promoting regional development by supporting non-oil growth thus improving the living conditions of the rural population and reducing the pressure on migration to Baku.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The proposed PDOs are "to reduce road transport costs and to improve access to markets and services for the communities in the project region" and "to increase sustainability of the main road network by supporting reform of the existing maintenance system". The PDOs would support higher level development objectives of regional development and poverty alleviation for the project region. The project region is defined as the Sabirabad, Salyan, Neftchala, and Shirvan rayons of the Aran region. The main road network consists of M roads (1,654 km) and the R roads (1,795 km)

### **Key Results (From PCN)**

Improving access along regional (project) roads - measured by improved access for communities in the project region to social services and by increase in travel frequency and the volume of goods transported along the regional (project) roads to the regional administrative centers

- Reducing road transport costs - measured by reduction of travel time and vehicle operating cost from the communities along the regional (project) roads to the regional administrative centers.
- Maintenance reform for the main road network - measured by the kilometers of main road network that are managed and maintained by the RMUs
- Sustainability of the main road network - measured by efficient use of maintenance funds for the main road network.

Increase in Shared Prosperity of the Bottom 40 percent.

The Project would further the corporate goals of poverty alleviation and increase in income of the bottom 40 percent. The project area is a poor region. R45 and R46 roads link Sabirabad, Salyan, Neftchala and Shirvan, and provide access of these districts/towns to major highway corridors of M3 Alat-Astara and M6 Hajigabul-Bahramtapa. The Kur river runs through this region.

The project will cover one of the most vulnerable regions in the country where the welfare and living standards of population are below the average standards in the country and have deteriorated

as a result of a recent flood. The project area, comprising the rayons of Sabirabad, Shirvan, Salyan, and Neftchala in the Aran region, has population of about 450,000 of which 60% live in rural areas. Despite the fact that Azerbaijan's national statistics do not calculate poverty incidence at the rayon level, the four rayons where the Project will be implemented have been identified as some of the poorest ones in the country overall. Nominal average monthly wages in four rayons are about 35 percent lower than country average, while nominal per capita income of population in these rayons is almost 20 percent lower compared to country average. The poor road conditions in this region are considered to be one of the main constraints to economic growth and poverty reduction, as costly transport and limited access increase the cost and timeliness of products reaching urban markets. In addition, the region's economy was significantly damaged during the 2010 flooding of the Kur river when local roads and infrastructure were seriously affected. Through improved road quality and lower costs of transportation, the proposed investment will reduce economic distance and narrow the income difference between urban and rural population, reversing a trend since the natural disaster took place.

More specifically, through a reduction in vehicle operating costs, travel times and accident rates on the roads to be rehabilitated, the project will directly contribute to transport efficiency and safety. Importantly, the envisaged works will lead to important social and economic outcomes in the rayons where project roads are located. First, during the construction phase the project will create temporary jobs during project implementation. Second, once works are completed, the project will improve access to markets. It is expected that travel time to and from the main towns affected by the project will be reduced, thereby enabling retailers and buyers of agricultural products to gain enhanced access, thus creating conditions for farmers to sell a larger share of their agricultural production at a better price, and supporting improved incomes. Third, improved transport infrastructure will make social services more accessible in the under-served rural areas. Through improved education and health services low income and vulnerable communities could have wider opportunities for investment in human capital. Finally, in the medium to longer term, better road infrastructure could ultimately translate into increased productive investments in beneficiary communities and employment opportunities for residents, which would improve household income and consumption, and decrease poverty rates.

### **III. Preliminary Description**

#### **Concept Description**

The Government has requested the Bank to rehabilitate two secondary road sections:

- 40km long R45 Shirvan-Noxudlu-Salyan Road;
- 43km long R46 Salyan-Neftchala Road.

The roads are classified as “Republic” roads which are of a lower category from the M roads. These roads connect into the major arterial M roads which provide this region with access to capital city Baku and other parts of country.

In addition, the Project would support maintenance reform in Azerbaijan. This furthers the institutional strengthening initiated in the Third Highway Project under which there is a major consultancy to help ARS improve its management and maintenance of the M road network.

Component 1: Regional Road Reconstruction. (i) reconstruction of R45 Shirvan-Salyan (40 km)

road, (ii) R46 Salyan-Neftchala (43 km) road, (iii) about 100 km of local roads in the region, and (iv) technical supervision consultancy.

Component 2: Institutional Strengthening for Maintenance and Management of the Main Road Network. (i) establishment of Regional Maintenance Units (RMUs) based on a corridor approach and scaling up of maintenance activities by those units, and (ii) institutional support to ARS on strengthening of recently established Main Roads Management Unit (MMU). Initially the RMUs will be set up to manage and maintain the M roads as this part of the main network has been (or soon will be) upgraded and rehabilitated to maintainable condition. As various sections of the R roads are rehabilitated, these will also gradually be transferred to the RMUs.

Component 3: Technical Assistance for Regional Roads and Related Development.

Component 4: Project Implementation, Monitoring and Impact Evaluation and Design of Future Road Investments.

#### IV. Safeguard Policies that might apply

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

#### V. Financing (in USD Million)

Total Project Cost:	250.00	Total Bank Financing:	200.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			50.00
International Bank for Reconstruction and Development			200.00
Total			250.00

#### VI. Contact point

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