



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 11-Feb-2021 | Report No: PIDA30723



BASIC INFORMATION

A. Basic Project Data

Country Azerbaijan	Project ID P174379	Project Name Regional Connectivity and Development Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 10-Feb-2021	Estimated Board Date 25-May-2021	Practice Area (Lead) Transport
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency State Roads Agency	

Proposed Development Objective(s)

To provide safe, efficient and climate resilient transport connectivity and improve market accessibility along the Salyan-Bilasuvar road corridor.

Components

- Road Connectivity
- Road Sector Sustainability
- Local Development and Logistics
- Project Management and Impacts

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	95.80
Total Financing	95.80
of which IBRD/IDA	65.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	65.00
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Non-World Bank Group Financing



Counterpart Funding	30.80
Borrower/Recipient	30.80

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Azerbaijan's economic advance since the early 2000s has been remarkable.** This was mainly driven by a rapid increase in oil and gas production. Economic growth was particularly robust between 2001-2010 averaging 15 percent per annum but fell substantially in the following decade to an average of approximately 1 percent per annum due to oil price volatility. Over the medium-term, Azerbaijan's economy will continue to be dominated by the hydrocarbon sector, with oil extraction expected to decline gradually and gas production to rise significantly. The strategy of the Government of Azerbaijan (GoA) envisages transformation from resource-oriented to a diversified, globally integrated and innovation-led competitive economy. Longer-term growth will require diversification away from the oil sector, and development of human and physical capital and institutions; as articulated in GoA's development strategy "Azerbaijan: Vision 2020"¹. In regard to physical capital, a key focus is to improve connectivity by developing the main transport corridors and linking regional and local roads.
2. **The economic growth outlook of Azerbaijan is clouded by the dual shocks of the COVID-19 pandemic and the associated oil price decline.** With the oil prices averaging \$40-45/barrel, GDP growth has contracted in 2020, but is expected to rebound in 2021–22, as the shocks disperse. Economic activity contracted by 6.4 percent by the end of fourth quarter 2020 year-on-year basis, which brought annual growth in 2020 to - 4.3 percent. The dual shocks, exacerbated by the consequences of military conflict with Armenia, harm the economy through adverse impacts on industries and jobs, reduced trade and financial flows, deteriorating consumer confidence, and restrictions introduced to contain the spread of disease. In such conditions, critical objectives of the government are to contain the pandemic and support negatively affected industries and households, particularly the bottom 40 percent.
3. **Since independence, development of the oil and gas sectors have given Azerbaijan new means of combating poverty and supporting the economic well-being of citizens.** Azerbaijan's GDP per capita rose from a post-independence low of just US\$470 in 1995 to \$4,814 in 2019² . Economic growth in

¹ https://azertag.az/sites/default/files/Bolmeler/Siyaset/DEVELOPMENT%20CONCEPT_en.pdf

² WDI, Macro Poverty Outlook.



Azerbaijan along with social transfers, and especially pensions and targeted social assistance³, helped to reduce poverty from 49 percent of the population in 2002 to 5.1 percent in 2018⁴. Unemployment in Azerbaijan stands at about five percent, and the disparity in labor force participation rate between women (54 percent) and men (75 percent) is of concern⁵. Although the country is rapidly urbanizing, 47% of the population reside in rural areas. Like in many other developing countries, poverty in Azerbaijan is concentrated in non-urban areas and there is a disparity in income between urbanized and rural areas.

4. **The project is located within a lagging region of the country.** The welfare and living standards of the population are below country averages and have not fully recovered after flooding in 2010. The project area, comprising the rayons of Salyan and Bilasuvar in the Aran economic region, has a population of about 250,000 of which 70% live in rural areas. Despite improvements in recent years, rural areas in Aran region lack well-paying jobs and business opportunities and have insufficient infrastructure and services. Nominal average monthly wages in Aran region are about 40 percent lower than the country average in the first quarter of 2020, while nominal per capita income was the lowest⁶ in the country. A significant part of the population in the region remain socially vulnerable and at risk of falling into poverty.

Sectoral and Institutional Context

5. **Since the middle of the last decade (2005), modernizing the road transport system has been a key development priority of the GoA.** The condition of the road network was poor at the time of the collapse of the Soviet Union in 1991, and further deteriorated during the first years of independence due to economic problems, political instability, and lack of maintenance. Improved economic conditions and financial capabilities in the early 2000's enabled the Government to launch major investments to improve the road network. Implementation of a comprehensive road sector development program has enabled growth and supported the Government's agenda to diversify its economy and stimulate non-oil growth by improving access to domestic and international markets and promoting regional development. Resumed economic growth has also increased demand for road transportation services. The Government's development strategy "Azerbaijan: Vision 2020" and the "Strategic Roadmap for Logistics & Trade Development in Azerbaijan" both emphasize the importance of transport connectivity in establishing a competitive, diversified, and sustainable economic system in the country.

6. **Roads are the dominant transport mode in Azerbaijan.** Between 2008 and 2018, the share of freight transport by road increased from 48 to 65 percent; and passenger transport by road increased from 83 to 88 percent⁷. Over the last twenty years the increase in the vehicles in Azerbaijan has averaged about 12.5 percent per annum, and traffic on major road corridors has increased correspondingly. To sustain the important role of road transport in the economy, the GoA wishes to enhance its focus on the capacity and quality of the road network to ensure higher mobility, reliability, and safety.

³ Almost two thirds of households receive some form of social transfer.

⁴ State Statistics Committee of Azerbaijan, https://www.stat.gov.az/source/budget_households/?lang=en

⁵ "Improving Employment Outcomes in Azerbaijan", Working Paper, Washington, D.C., World Bank, 2019.

⁶ Based on the Azerbaijan State Statistics Committee data, the nominal per capita income in the Aran region in 2018 was 256.8 AZN (about US\$150)

⁷ State Statistics Committee of Azerbaijan, <https://www.stat.gov.az/source/transport/>

**Table 1 - Condition of the Road Network in Azerbaijan⁸**

Road Class	Condition of Roads					Percentage of Roads in Maintainable Condition
	Very Good	Good	Fair	Poor	Bad	
M (Magistral Roads, km)	362	504	920	75	35	94.2%
R (Secondary Roads, km)	148	757	599	143	150	83.7%
Y (Tertiary Roads, km)	553	1038	1070	916	2074	47.1%
Total (km)	1063	2299	2590	1134	2259	63.7%

7. **GoA embarked on a major highway reconstruction program in the early 2000's.** This started with improvements to the East-West corridor (M2 highway Baku to the Georgian border and M4 highway Baku to Yevlakh) and the North-South corridor (M1 highway Baku to the Russian border, and M3 highway Alat to the Iranian border highway). In parallel, rehabilitation works for other highways (M category roads) were launched. The completion of the program to reconstruct and rehabilitate all M category roads is scheduled for 2021. While upgrading of the highways is close to completion, reconstruction of lower road networks, and particularly the tertiary roads (Y category roads), is still underway. As indicated in Table 1, by the end of 2019, the share of roads in good and fair condition reached 83 percent for the secondary network, and 47 percent⁹ for local roads. The condition of the secondary roads is a road sector development gap that the proposed project will address.

8. **Rehabilitation of the project road allows realization of Government plans to toll the parallel M3 motorway.** National legislation prohibits road tolling without availability of functional alternative roads, and the project road will provide that alternative route. Over time, this will reduce the burden on the state budget for maintenance of the corridor in line with the Maximizing Finance for Development (MFD) approach.

9. **The Azerbaijan State Agency for Automobile Roads (SAAAR) was established in 2017 as a public entity.** It is responsible for management of the highway and secondary road network, as well as key local roads; and reports directly to the President and Cabinet of Ministers. SAAAR manages major road construction centrally and uses its regional entities to carry out maintenance activities. In 2007, the Government reinstated the Road Fund (RF) as the account in the state budget to accumulate revenues from road user charges¹⁰ and channel them for routine and periodic maintenance of the road network. According to the current annual state budget, the RF is expected to collect about US\$ 190 million in 2020.

10. **Government financing for development and maintenance of the road infrastructure since the**

⁸ Based on measurement of the road network condition in 2019, which included 1896 km of M roads (15km of M network was not covered), 1797 km of R roads (12km of R network was not covered), and 5651 km of Y roads (4299km of Y network was not covered). Total road network under the SAAAR currently includes 13671 km (1,911 km of M roads, 1,809 km of R roads, and 9,950km of Y roads). This does not include the road network in Nakchivan Autonomous Republic and territories in Karabakh region of Azerbaijan, which until November 2020, were beyond control of Azerbaijan due to military conflict with Armenia.

⁹ SAAAR, road condition survey results classified by International Roughness Index (IRI)

¹⁰ These mostly include revenues from road tax, vehicle registration fees, vehicle annual license fees, vehicle import excise taxes, international transit fees, and cargo and passenger transportation fees.



start of the road network renovation program has exceeded US\$ 10 billion. The World Bank (WB) has supported the Government's road sector program with three highway projects¹¹, with a total investment of about US\$1.1 billion since 2001. The Bank cooperates with other development partners, such as the Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD), which are also supporting the road sector in Azerbaijan through large-scale investment operations.

11. Modernization of road assets in Azerbaijan was accompanied by institutional improvements. However, the pace of these improvements, so essential to modernize the road sector, such as establishing effective asset management practices, ensuring financial sustainability, and enhancing the road safety framework, have not kept pace with road investments. Nevertheless, important progress has been made in recent years. The WB financed Third Highway Project¹¹ (THP) supported the establishment of an effective maintenance system for the motorway network. Between 2012-2019, the Government's efforts resulted in the reduction of road accident fatalities in the country by about 30 percent¹². In 2018, the President of Azerbaijan approved a comprehensive reform-oriented State Road Safety Program for 2019-2023, which was first initiated under the WB financed Second Highway Project¹¹. Meanwhile, EBRD and ADB have provided financing for technical assistance (TA) across a range of areas, including road maintenance for secondary and local roads, and capacity building for road agency personnel.

12. Road Safety needs further improvement in Azerbaijan. Currently Azerbaijan has more fatalities from road crashes than many other countries in the wider region. Substantial state investment in road infrastructure has brought benefits in terms of more efficient traffic management, and these measures have played an important role in reducing road traffic crashes in Azerbaijan in recent years, but further improvement is needed. The Government wishes to ensure that high quality technical standards are applied to improve roads and traffic safety.

13. Despite progress, the establishment of effective technical and institutional frameworks for road network operation and management is still work in process. The Road Fund has insufficient resources for road maintenance, and additional revenue is needed to address the maintenance backlog and to improve financial sustainability of the sector. GoA is interested in adopting user pays principles and introducing road user charges (RUC), as a means to improve financial sustainability. In parallel, GoA wishes to reduce the rate of deterioration of the road network and recognizes that operational efficiencies could be improved through better enforcement of axle load controls.

14. Climate change impacts and natural hazards are expected in the project area. The project was screened for short and long-term climate change and disaster risks using the World Bank Climate and Disaster Risk Screening Tool. The primary risks for the project road are associated with higher and more extreme temperatures leading to changes in precipitation patterns. The parts of Azerbaijan at greatest risk of floods are in the central and south-eastern, which encompasses the project region. In the project region projected increases in precipitation is likely to exacerbate flood risk, which is already occurring. There is an estimated 10 percent chance of potentially damaging earthquakes in the project area in the next 50 years It is estimated that there is 50 percent chance of weather that could support wildfires in the project area, and climate projections indicate a likely increase in the severity of fire, although the

¹¹ Highway Project, P040716 (US\$40 million), Second Highway Project, P09448 (US\$675 million), Third Highway Project, P118023 (US\$381.6 million)

¹² State Statistics Committee of Azerbaijan



consequences of fire on connectivity is likely to be of short duration with low damage impact on the roads. Overall, the impacts on the project's physical infrastructure and assets is rated as moderate, since projections indicate rising temperatures, some probability of increased flooding in the project area, and a moderate risk of geo-hazard.

15. **Azerbaijan prepared Intended Nationally Determined Contribution (INDC) for the United Nations Framework Convention on Climate Change (UNFCCC).** Azerbaijan stated that it believes that climate change is a potential threat for humanity and supported the adoption of the Global Agreement on climate change, as agreed at the UNFCCC 21st Conference of Parties held in Paris in 2015. By 2030 Azerbaijan targets a 35 percent reduction in the level of greenhouse gas (GHG) emissions compared to 1990 base year as its contribution to the global climate change efforts. Mitigation measures proposed for the Transport sector include use of environmentally friendly forms of transport including electric vehicles for public transport, electrification of railway lines, and an expansion of intelligent transport management system. Support for the latter issue is included in this project within Components 2.2 and 2.3

16. **GoA has a key policy to help bridge the rural-urban divide.** This targets regional development and revitalization of rural economies. Spatial disparities persist in Azerbaijan with growth centered largely in and around Baku. Rural areas are lagging behind, despite hosting a significant share of the population¹³. Agriculture employs 38 percent of the entire work force while generating only 6 percent of GDP. Azerbaijan has a strong comparative advantage in the production of fresh and processed fruits and vegetables, but has not reached its full potential in this area¹⁴. Rural areas are beset by two mutually reinforcing trends - lack of both meaningful employment opportunities and sustainable business activity, and inadequate infrastructure and services. The recent economic shocks put particular pressure on the livelihoods and incomes of vulnerable population groups in less developed regions, a situation exacerbated by COVID-19. The lack of viable employment leads to migration of population, particularly young people from rural to urban areas. Women's employment is mostly concentrated in the low-paid sectors. About 42 percent of female jobs are currently in agriculture, the largest sector for the employment of women, followed by services¹⁵.

17. **Azerbaijan's agricultural sector is highly fragmented, with many small farms.** In Azerbaijan, agricultural producers are classified into three groups: family farms and households, agricultural enterprises, and private owners and entrepreneurs. By far the largest group (99% of total numbers) consists of family farms, which comprise individual farmers that are market oriented, and 'households' with agricultural land producing mainly for home consumption.¹⁶ Increasing domestic demand for potatoes, fruit, vegetables, meat, fish and eggs is being driven by income growth and urbanization trends. Due to their small-scale production many farmers have little access to markets, other than their local village. The food supply chain is poorly organized, transactions are mainly on ad-hoc basis and costly due to the prevailing small-scale nature of farming. A further challenge for the domestic agricultural supply chain is to comply with quality, food safety and environmental standards. The project will provide support

¹³ South Caucasus in Motion, The World Bank

¹⁴ Assessment of the Azerbaijan Transportation and Logistics Sector, Azerbaijan Investment Climate and Agribusiness Competitiveness Project, December 2018, World Bank Group, IFC.

¹⁵ Azerbaijan: Country Gender Assessment, Asian Development Bank, 2019

¹⁶ Market and competitiveness analysis of the Azerbaijan agricultural sector: an overview. Siemen van Berkum (Wageningen Economic Research), August 2017.



in these areas through advisory and training initiatives.

18. **Women in rural areas face disproportionate challenges compared to men.** The gender assessment conducted in the project areas confirmed a range of barriers inhibit both women and men, but particularly women, from trading and entrepreneurial activities. Some of these barriers include poor roads and transportation to access markets, lack of adequate local market infrastructure and lack of credit and business management skills. Many of these barriers, coupled with household responsibilities, means that women sell their agricultural products at their doorsteps, often at a lower cost than at markets. Focus group discussions held with the project affected communities, found that women wanted opportunities to sell their products at markets and road-side sales points at a competitive price, and also wanted access to training and business advisory support to establish and run their businesses.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To provide safe, efficient and climate resilient transport connectivity and improve market accessibility along the Salyan-Bilasuvar road corridor.

Key Results

19. The achievement of PDO will be measured through the indicators provided in **Table 1**Table 2 below:

Table 2 – Proposed PDO Indicators

PDO Indicator	Assessed Aspect of PDO
Beneficiaries with enhanced access to road transport as a result of the Project.	Improved transport connectivity and market accessibility (core Indicator)
Improvement in the delivery time of agricultural products from farm to market	Improved connectivity and market accessibility
Road safety improvements along M3 Salyan-Bilasuvar road expressed as the Project Safety Impact (PSI) using the Road Safety Screening and Appraisal Tool	Safer connectivity
Reduction in vehicle operation costs on project roads for medium trucks along the project road (percent)	Improved efficiency and connectivity
Climate resilience measures incorporated in the project roads	Improved climate resilience

D. Project Description

20. **The project will finance three streams of activities.** The first stream will comprise infrastructure investments in both roads and ancillary agri-logistics infrastructure. These investments will contribute to supporting connectivity and market accessibility to maximize the socio-economic development impact of the upgraded road. In the short to medium term, the combination of safe and resilient road infrastructure and improved logistics will create conditions for increasing productivity in beneficiary communities, new employment opportunities and household incomes. The second stream will support financial sustainability and operational efficiency within the road sector, through TA to introduce options for road



user charges, thereby enabling the development of new sources of revenue for road maintenance and operations. Under this stream, TA will also be provided to help address deterioration of the road network through prevention of overloaded heavy vehicles. Having additional sources of revenue and operational improvements that provide for adequate levels of road maintenance and costs, will help guarantee the long-term sustainability of the road infrastructure provided under this project and other road investments. The third stream will support the design and arrangement of roadside facilities (logistics facilities, marketplaces, among others), and the provision of skills training to local entrepreneurs, in order to improve income-generating opportunities for local communities. The design of the all activities will be based on community mobilization to maximize the benefits for project beneficiaries. An important aspect of the design of roadside facilities will be development of a suitable management model, one that provides for equitable usage and addresses long-term maintenance and operation of the facilities.

21. The project consists of the following components, as shown in Table 3.

Table 3 - Project Components

Project Components	Project Cost (Incl VAT)	IBRD Financing	Government Financing
Component 1 - Road Connectivity	87.38	59.24	28.14
1.1. Regional Road Rehabilitation	82.05	55.63	26.43
1.2. Construction Supervision	3.31	2.24	1.06
1.3 Design of Future Investments	2.02	1.37	0.65
Component 2 - Road Sector Sustainability	2.95	2.00	0.95
2.1. Develop Road Network Management Systems	0.59	0.40	0.19
2.2. Develop Road User Charging Models	1.48	1.00	0.48
2.3. Develop Systems to Prevent Axle Overloading	0.89	0.60	0.29
Component 3 - Local Development and Logistics	2.95	2.00	0.95
3.1. Develop Road-Side Logistics and Market Facilities	2.07	1.40	0.67
3.2. Advisory and Training Initiatives	0.89	0.60	0.29
Component 4 - Project Management and Impact Assessment	2.36	1.60	0.76
4.1. Support for Project Management	2.12	1.44	0.68
4.2. Results Measurement and Impact Assessment	0.24	0.16	0.08
Front-End Fee	0.16	0.16	0.00
Total	95.80	65.00	30.80

Note –20% of the project costs, plus VAT, will be co-financed by the Government. VAT costs are estimated at US\$14.59 million equivalent.

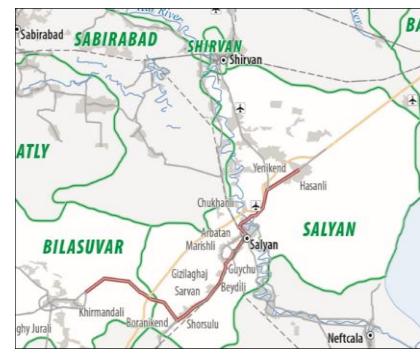


Component 1 - Road Connectivity (estimated IBRD US\$ 59.24 million)

22. The Component will include the following sub-components:

- **Sub-Component 1.1 - Regional Road Rehabilitation (estimated IBRD US\$55.63 million).** This will finance rehabilitation of selected sections of the M3 road (original alignment) between km 31.9 and km 103.3. The project road provides an alternative route to the newer M3 motorway, which is a requirement for it to be tolled in the future.
- **Sub-Component 1.2 - Construction Supervision (estimated IBRD US\$2.24 million).** This subcomponent will finance costs of supervision activities as required for rehabilitation of the Component 1.1. road.
- **Sub-Component 1.3 - Design of Future Investments (estimated IBRD US\$1.37 million).** This sub-component will finance costs associated with implementation of technical design, environmental and social studies required for rehabilitation of the remaining sections of M3 highway (original alignment).

Figure 1 - Location of Road Rehabilitation



23. **The project road will be rehabilitated along the existing alignment as a second category road according to the national road classification.** The rehabilitation works will, inter alia, include the improvement of embankment and vertical alignment, replacement/construction of asphalt layers, bridges, water drainage pipes, the installation of side barriers, bus stops, road signs and markings along the selected sections of the M3 highway. Some sections of the road between km 54.4 and km 60.0 within the Salyan town boundaries are considered for lighter rehabilitation due to their existing technical characteristics.

24. **The design will ensure a resilient road to properly serve densely populated proximate residential areas and provide a safe alternative to the M3 motorway.** Specifically, the road will be upgraded with climate resilience measures including improving the capacity of drainage systems and adaptation of bridges to the flooding risks and other resilience solutions. The enhanced safety considerations will include improved shoulders, guardrails in the high embankment and super-elevation sections, and improved signage among others. Consultations on the road rehabilitation design will be conducted to ensure that needs of local residents are taken into account into the final design and that local communities can provide feedback particularly on aspects such as locations of bus stops, crossing areas, and/or other points of access.

***Component 2 – Road Sector Sustainability (Estimated IBRD US\$ 2.00 million)*****25. Sub-Component 2.1 – Road Network Management Systems (estimated IBRD US\$ 0.40 million).**

The sub-component is a TA to improve network management and operational efficiencies through application of intelligent transport systems (ITS). The TA will explore needs and opportunities for establishment of an integrated network-wide management system incorporating electronic tolling and heavy vehicle monitoring, and other ITS modules, including systems for early warning of weather and geohazards that will impact the road network. Component 2.1 will establish the context and architecture for Components 2.2 and 2.3.

26. Sub-Component 2.2 – Develop Road User Charging (RUC) Models (estimated IBRD US\$ 1.00 million).

The sub-component is TA to develop systems for RUC, through e-tolling, vignettes and other similar systems. Technology offers new options to differentiate toll tariffs, so vehicles that damage the roads most, or make more emissions, pay more, and this will also be explored. The study is expected to consider feasibility, RUC technology choice, back-office requirements, governance, toll collection and accounting, willingness to pay, regulatory issues, communications campaigns/awareness, technical specifications, and other aspects of road user charging. Outcomes of the study will contribute to the maximization of financing for development and sustainability of the road sector in Azerbaijan.

27. Sub-Component 2.3 – Develop Systems to Prevent Over-loaded Axles (estimated IBRD US\$ 0.60 million).

The sub-component is a TA to specifically focus on systems to prevent premature road deterioration by controlling heavy vehicle overloading, through weigh-in-motion (WIM) technology, and other traffic management systems. The study will consider preparation of detailed documentation including feasibility, technology choice, back-office requirements, governance, enforcement and regulatory issues, technical specifications, among others.

28. Although shown as three separate sub-components to provide clarity on the substance, the TA may be done as a single consultancy, as determined by the Procurement Plan.

Component 3 – Local Development and Logistics (Estimated IBRD US\$ 2.00 million)**29. Sub-Component 3.1 – Develop Road-side Logistics and Market Facilities (estimated IBRD US\$ 1.40 million).**

This sub-component will provide financing for (i) TA to guide the planning and development of road-side logistics and market facilities and (ii) pilot the implementation of identified small-scale investments. The investments will be identified and designed as a result of participatory planning with local communities and with the strong involvement of the local authorities. There are important synergies with the agriculture sector, and cross-sector support will be sought during implementation of this component. An important aspect will be to support development of a suitable model to manage the facilities, one that provides for equitable usage by beneficiary groups and addresses long-term maintenance and operation of the facility. The investments will improve existing roadside market and logistics facilities and/or create new ones along the project road in selected areas. Facilities considered as



part of the sub-component interventions will involve, but not be limited to warehouses, cold storage, small markets and selling points, packaging and distribution facilities.

30. **Sub-Component 3.2 – Advisory and Training Initiatives (estimated IBRD US\$ 0.60 million).** The sub-component will finance TA to develop a curriculum and then to deliver training and advisory services specific to small-scale agricultural producers and agri-logistics, operating in the project area; for example, businesses supplying organic food products from Salyan to Baku. Activities will include guidance on working safely and strategies to contain the spread of pandemics. There will be a particular focus on the needs of women growers and women entrepreneurs, but the training will be open to all in the project area communities. The sub-component will be tailored to the needs of local beneficiaries, such as farmers, cooperatives and entrepreneur groups, to be identified through participatory needs assessment and community mobilization work. Advisory and training initiatives will also align with Component 3.1. Advisory services and training will cover such areas as community and cooperative development, business development, branding, digital literacy (e.g. in the use of the e-commerce and e-services platforms and applications), and the like. Some training activities will be tailored to the needs of women entrepreneurs and at least 50 percent of the beneficiaries will be women.

Component 4: Project Management and Impacts (estimated IBRD US\$ 1.6 million)

31. The Component will support various project management functions including staff costs, incremental operating costs and costs of individual consultant services in supplement project implementation and management capacity of the implementing agency, as well as financial audits. Financing for the associated incremental operating costs will be applied towards:- training of SAAAR and Project Implementing Unit (PIU) staff, office space and equipment, office consumables, transport as required to implement the project and for site visits, consultant assistance for management of technical, safeguards and fiduciary aspects, interagency coordination; results monitoring; completion reviews, impact assessments where required to determine achievement of the project indicators, and monitoring of results; and the like. The component will also finance the development of a COVID-19 emergency response plan mainly aimed at project contractors and local communities.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

32. **The project's environmental and social risks are assessed as Moderate.** The project's physical footprint will be limited to rehabilitation of the selected segments of the regional road Salyan-Bilasuvar within its existing alignment and minor civil works under Component 3. Therefore, no land acquisition or involuntary resettlement impacts are expected to occur. The resettlement impacts if any to occur during implementation, may include, for example, impacts on roadside businesses, fences, structures, trees, etc.



Environmental impacts will be typical to small and medium civil works, including dust, noise, pollution, waste management, drawing of gravel and sand resources.

E. Implementation

Institutional and Implementation Arrangements

33. **The institutional arrangements for the project will follow the experience of the previous Bank financed projects in Azerbaijan.** The Ministry of Finance (MoF) will be the borrower and the formal point of contact between the GoA and the World Bank on all financial and legal matters for the loan and represents the GoA in discussions on these matters. The Ministry of Economy (MoE) will serve as a government focal point exercising oversight over the implementation of the project. SAAAR has been assigned by the GoA as the project implementing agency.

34. **The project will be implemented by SAAAR supported by the existing PIU.** SAAAR is the implementing agency for the ongoing Third Highway Project, and also managed previous WB operations, and several other IFI financed projects. SAAAR is familiar with the Bank requirements for financial management (FM), procurement and safeguards. The PIU is staffed with seasoned personnel, including engineering, procurement, and FM staff, and has significant capacity developed during implementation of past and ongoing operations. While the current PIU will continue implementation management for the new project, the number and skill composition of its staff will be adjusted to the needs and design of the new operation. To fill the capacity gap of the PIU in implementing local development and community outreach activities, a specialized local implementing partner entity (IPE) will be engaged. The IPE will be a consultancy firm or an NGO to conduct the participatory planning and to guide the implementation of the agri-logistics facilities and the advisory and training activities. In addition to PIU staff, the project will provide dedicated support for the implementation of the project activities through hiring of individual consultants and technical experts.

CONTACT POINT

World Bank

Nijat Valiyev
Senior Infrastructure Specialist

Fiona J Collin
Lead Transport Specialist

Borrower/Client/Recipient



Ministry of Finance
Adalat Aliyev
Head of Infrastructure Financing Department
adalat.aliyev@maliyye.gov.az

Implementing Agencies

State Roads Agency
Mehman Babakhanov
PIU Director
mehman.babaxanov@azeravtoyl.gov.az

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Nijat Valiyev Fiona J Collin
Approved By	
Practice Manager/Manager:	
Country Director:	Sarah G. Michael