

FRAMEWORK FINANCING AGREEMENT

(Road Network Development Program)

Parties	This Framework Financing Agreement (“FFA”) dated 08 August 2007 is between the Republic of Azerbaijan (Azerbaijan), and Asian Development Bank (“ADB”).
MFF Investment Program	Azerbaijan intends to implement the Transport Sector Development Strategy and Development Program (the Development Program), of which the Roadmap and Road Network Development Program is an integral part. Both the Transport Sector Development Strategy and the Roadmap and Road Network Development Program are described in Schedule 1 hereto (the Roadmap and Road Network Development Program).
Multi-Tranche Financing Facility	<p>The Multitranche Financing Facility (the Facility) is intended to finance projects and subprojects under the Roadmap and Road Network Development Program, provided that such projects and subprojects comply with the criteria set out in Schedule 4 hereto and that understandings set forth in this FFA are complied with.</p> <p>The projects and subprojects under the Facility may include: (i) construction, upgrading, and rehabilitation of roads within Azerbaijan’s national boundaries; (ii) construction and rehabilitation of road facilities including vehicle weighing stations, cross-border points, and toll stations; (iii) strengthening of institutional capacity of executing and implementing agencies; and (iv) public private partnership initiatives and studies in road subsector.</p>
This Framework Financing Agreement	<p>This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Azerbaijan, cancel the uncommitted portion of the Facility, and withdraw Azerbaijan’s right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.</p> <p>This FFA does not constitute a legal obligation on the part of Azerbaijan to request any financing. Azerbaijan has the right not to request any financing under the Facility. Azerbaijan also has the right at any time to cancel any uncommitted portion of the Facility.</p> <p>Azerbaijan and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.</p>

Financing Plan

The indicative financing plan for the Road Network Development Program for the period of 2006-2015 is summarized below. Details are set forth in Schedule 1 to this FFA.

Source	Total (\$ million)	%
Road Network Development Program ^a		
Asian Development Bank	500.0	15
Azerbaijan and Other External Financiers ^b	2,861.1	85
Total	3,361.1	100.0
Project 1		
Asian Development Bank		
Ordinary Capital Resources	190.0	76
Special Funds Resources	10.0	4
Azerbaijan	49.0	20
Total	249.0	100.0

^a All figures are indicative.

^b Includes the European Bank for Reconstruction and Development, Islamic Development Bank, and the World Bank.

Source: Asian Development Bank estimates.

Financing Terms

ADB will provide loans to finance projects, subprojects and components under the Roadmap and Road Network Development Program, as and when the latter are ready for financing, provided, Azerbaijan is in compliance with the understandings hereunder, and the components, projects, and subprojects are in line with those same understandings.

Each loan will constitute a tranche under the Facility.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing at the time the tranche is documented in a relevant loan agreement.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges or guarantee fees are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when a tranche is provided, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is five

hundred million dollars (\$500,000,000). It will be provided in individual tranches from ADB's ordinary capital resources¹ and Special Funds resources.² The terms and conditions of each loan will be determined in the context of each tranche and will follow prevailing ADB policies.

Availability Period

The last date on which any disbursement under any tranche of this Facility may be made will be December 2014. The last financing tranche is expected to be executed no later than December 2010.

Terms and Conditions

Azerbaijan will cause the proceeds of each tranche to be applied to the financing of expenditures of the draft Roadmap and Road Network Development Program, in accordance with conditions set forth in this Agreement and the loan agreements for each tranche.

The loan proceeds under the Facility will be used to finance road-subsector projects, or a range of subprojects in the case of sector loans, or project components in the case of a large stand-alone project, for which eligibility and approval criteria are set out in Schedule 4 to this FFA.

Execution

The Executing Agency for the Roadmap and Road Network Development Program will be Azerbaijan's Ministry of Transport (MOT), assisted by AzerRoadService Open Joint-Stock Company (ARS) that will function as the implementing agency for Project 1. The Executing Agency will implement the Roadmap and Road Network Development Program in accordance with the principles set forth in Schedule 1 to this Agreement, as supplemented with more details in the loan agreements for each tranche.

Periodic Financing Requests

Azerbaijan may request, and ADB may agree, to provide loans under the Facility to finance the Roadmap and Road Network Development Program and its related projects and subprojects upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by Azerbaijan. Azerbaijan will make available to MOT, the proceeds of the tranche in accordance with the related PFR, and the loan agreements for the tranche. ADB will review the PFRs and, if found satisfactory, prepare the related loan agreements.

The projects and subprojects for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4

¹ Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each such Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified being hereinafter called the OCR Loan Regulations).

² Provisions of the Special Operation Loan Regulations applicable to Loans Made by ADB from its Special Funds Resources, dated 1 January 2006, would apply to each such Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Special Funds Loan Regulations as so modified being hereinafter called the SF Loan Regulations and, collectively with the OCR Loan Regulations, the Loan Regulations).

hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks and other documents. ADB and Azerbaijan will agree on a Facility Administration Manual and a schedule to initiate these activities, as soon as possible after the date of this Agreement, but prior to the effective date of the loan agreements for the first tranche.

Azerbaijan's authorized representative shall execute PFRs.

**General
Implementation
Framework**

The Facility will be implemented in accordance with the general framework and implementation arrangements set out in Schedule 3 hereto.

Procedures

Tranches to be provided under the Facility will be subject to following procedures and undertakings:

- (a) Azerbaijan will have notified ADB of a forthcoming PFR at least 15 days in advance of the submission of the PFR.
- (b) Azerbaijan will have submitted a PFR in the format agreed with ADB.
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any loan agreement for a tranche, provided, any decision to so decline is communicated to the Counterparty by ADB within 30 days from receipt of the PRF.
- (d) If no such decline is communicated to Azerbaijan, the loan agreements will be negotiated and executed no later than 30 days from ADB's receipt of the PRF.

PFR information

The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) Loan, guarantee, or equity amount;
- (ii) Description of projects or subprojects to be financed;
- (iii) Cost estimates and financing plan;
- (iv) Implementation arrangements specific to the projects or subprojects;
- (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;
- (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s); and
- (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

Safeguards

Attached at Schedule 5 are the Safeguards Frameworks that will be complied with during the implementation of the Facility.

ADB Safeguard Policies, namely: (i) the *Involuntary Resettlement*

Policy (1995) and (ii) the *Environment Policy* (2002), in effect as of the provision of a financing tranche will be applied with respect to the projects and subprojects financed under such financing tranche.³

Procurement All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).

Consulting Services All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).

Disbursements Disbursements will be made in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

In projects/subprojects where land acquisition and involuntary resettlement are required, no loan proceeds shall be disbursed for civil works until ADB has received the Azerbaijan Government's certification, in form and substance satisfactory to ADB, that (i) the Government has allocated adequate funds for land acquisition to relevant project/subproject account, and (ii) all land and rights-of-way required for the civil works are free and clear from any and all rights or claims of third parties and any other encumbrances whatsoever.

Monitoring, Evaluation, and Reporting Arrangements Within 3 months of the effective date of the loan agreement for every tranche under the Facility, MOT will establish a Project Performance Management System (PPMS) in a form and substance acceptable to ADB, in accordance with the Roadmap and Road Network Development Program and project or subproject performance indicators agreed between ADB and MOT. The Design and Monitoring Framework for the Facility is set forth at Schedule 2 hereto. MOT and ARS will undertake periodic project or subproject performance review under each individual Loan, as also for the Road Network Development Program, in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project or subprojects and overall Road Network Development Program. MOT will prepare and submit to ADB quarterly progress reports for the individual project or subprojects under the Facility. The reports will include a description of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date, and include a report on progress of the implementation of mitigation measures as specified in the contracts and EMP. A project or subproject completion report will be submitted within three months following completion of each project or subproject. A Facility completion report will be submitted within 3 months after completion of the Facility.

³ ADB's Indigenous Peoples Policy (1998) has been determined inapplicable to the Facility.

REPUBLIC OF AZERBAIJAN

ASIAN DEVELOPMENT BANK

By _____/original signed/

By _____/original signed/

Name of Authorized Representative

Name of Authorized Representative

SCHEDULE 1

A. Challenges

1. Azerbaijan's road subsector faces four major development challenges:
 - **Deteriorating Infrastructure.** The public road network was primarily developed under the former Soviet Union, and cannot meet the need of the rapidly growing economy. Most roads are in unsatisfactory condition due to insufficient funding for road maintenance, and weak enforcement of vehicle axle-load controls. As a result, a large part of the road network is not maintainable and needs reconstruction or rehabilitation. The poor road conditions resulted in high transport costs, long travel time, and low safety levels. The rapid increase in vehicle fleet, which is projected to continue over the medium term, would require development of the road network.
 - **Poor Safety Record.** Road safety is an acute problem, as the number of road traffic accidents, fatalities, and injuries has increased rapidly since 2001, causing significant economic and human losses. The current fatality rate is around 10 times the fatality rate in the Nordic European countries. The major causes of road traffic accidents are poor road conditions, lack of safety features, weak enforcement of safety regulations, intoxicated driving, excess speed, and inadequate driver education. With the rapid growth of vehicle fleet, there is a potential for more road traffic accidents in the future, unless prompt remedial action is taken.
 - **Inefficient Cross-Border and Transit Facilities.** Azerbaijan is a signatory to a number of international transit and transport agreements and conventions, but cross-border and transit road transport is inefficient, mainly because of inadequate road infrastructure and cross-border facilities, and non-harmonized procedures with neighboring countries. Surveys showed that 80% of companies experienced delays of 1–3 days in crossing the borders of Azerbaijan.⁴ These barriers severely hinder cross-border and transit traffic.
 - **Limited Institutional Capacity.** Despite some improvement, institutional capacity in the road subsector remains limited. This is reflected by (i) lack of a legal and regulatory framework for tolling roads; (ii) need to improve enforcement of some regulations; (iii) lack of private sector participation in road maintenance; (iv) need to improve financial management; and (v) limited experience in management of road investment projects. Limited institutional capacity is a major constraint on sustainable development of the road subsector.

B. Development Strategy

2. The Government of Azerbaijan has set improvement of road infrastructure as one of the priorities in two state programs: (i) State Program on Poverty Reduction and Economic Development (SPPRED), and (ii) State Program on Socioeconomic Development of Regions. To implement these programs, the Ministry of Transport has drafted a *Transport Policy Paper*, followed by a Transport Sector Development Strategy developed with ADB assistance in 2006.⁵ The draft Transport Policy Paper and the Transport Sector Development Strategy, pending

⁴ World Bank. 2002. *Trade and Transport Facilitation in South Caucasus: Azerbaijan*. Washington, DC.

⁵ ADB 2005. *Technical Assistance to the Republic of Azerbaijan for Transport Sector Development Strategy*. Manila.

Government approval, paved the way for a road subsector roadmap, which is presented in Table 1.

Table 1: Road Subsector Roadmap, 2006–2015

Objective	Impact	Performance Target	Measurement	Executing Agency
Development of road network	An efficient and affordable road network capable of meeting the needs of the rapidly growing economy in Azerbaijan	<p>East–west and north–south highways reconstructed by 2010</p> <p>2,666 km of selected sections of Republican roads reconstructed or rehabilitated by 2015</p> <p>5,928 km of selected sections of secondary roads improved by 2015</p> <p>Share of roads in poor condition reduced to less than 15% by 2015</p>	<p>Volume of traffic on east–west and north–south highways, and other improved roads</p> <p>Vehicle operating costs on improved Republican and secondary roads</p> <p>Travel time on the improved Republican and secondary roads</p> <p>Progress report on Road Network Development Program in the road subsector</p>	MOT, ARS
Improvement of road safety	Road traffic accidents maintained at reasonable levels	<p>Annual growth rate of road accidents reduced to about 5% by 2015</p> <p>Fatality rate decreased to less than 5 deaths per 10,000 vehicles by 2015</p> <p>Establishment of the Road Safety Board by 2008</p> <p>Road safety features installed on all Republican and secondary roads by 2015</p>	<p>Number of road traffic accidents, fatalities, and injuries</p> <p>Road accident monitoring, reporting and information systems</p>	ARS, Road Traffic Police Department of Ministry of Internal Affairs
Facilitation of cross-border and transit transport	Azerbaijan's road transport links with neighboring countries enhanced	<p>Share of cross-border and transit traffic on the east–west and north–south highways increased to 10% of total traffic by 2015</p> <p>Delays in vehicle border crossing avoided</p>	<p>Volume of cross-border and transit freight and passenger transport</p> <p>Progress report on Action Plan for harmonizing transport regulations cross-border agreements</p>	ARS, MOT, State Customs Committee, MOED

Objective	Impact	Performance Target	Measurement	Executing Agency	
Strengthening of institutional capacity in the road subsector	Sound legal and regulatory frameworks developed	Amendments to Road Law enacted by 2008	MOT's reports	MOT	
		Bus legislation for licensing and route management developed by 2009			
		Vehicle testing system based on European legislation developed by 2009			
		Truck legislation for licensing developed by 2010			
		Legal and regulatory frameworks for tolling roads developed by 2010			
	Road management improved	ARS's corporate plan developed by 2006	Service Agreements between MOT and ARS	MOT, ARS	
		Road Advisory Board established by 2009			
		Manual on financial reporting and procedures developed by 2006			
	Road maintenance improved	Regional road maintenance units restructured	ARS's reports	ARS	
		Road maintenance funding increased to \$120 million by 2008, \$180 million by 2010, and at least to \$250 million by 2015			
		Road maintenance undertaken through competitive bidding open to private sector contractors by 2009			
		ARS's road maintenance budgets			Ministry of Finance, MOT, ARS
		Vehicle weigh stations along main roads set up by 2010			Number of private sector contractors for road maintenance
Vehicle axle load control enforced	Share of overloading vehicles on main roads	ARS			

ADB = Asian Development Bank, ARS = AzerRoadService Open Joint-Stock Company, and MOT = Ministry of Transport.

C. Investment Plan

3. The Ministry of Transport developed a Road Network Development Program in the road subsector for 2006–2015 in June 2006. The Road Network Development Program will construct, upgrade, and rehabilitate approximately 9,500 kilometer (km) of 124 roads, comprising 3,570 km of 64 state roads and 5,928 km of 58 secondary roads. The overall investment reaches around \$3.4 billion over the medium term, in accordance with Road Network Development Program. This financing is projected to be provided from government's budget and external sources. A detailed Road Network Development Program is shown in Table 2.

Table 2: List of Roads Development and Improvement Subprojects, 2006–2015

No.	Road Subproject	Total Length (km)	To be Improved (km)	Cost (\$ million)	No.	Road Subproject	Total Length (km)	To be Improved (km)	Cost (\$ million)
A. State Road					B. Secondary Road				
R-1	Baku–Guba–border with Russia	208	208	311.8	S-1	Absheron	56	40	2.0
R-2	Baku–Gazakh–border with Georgia	503	453	676.0	S-2	Aghjabedi	171	80	10.0
R-3	Alyat–Astara–border with Iran	243	243	416.0	S-3	Aghdam	97	55	4.8
R-4	Baku–Shemakha–Muganli and Mugnali–Yevlakh	280	266	178.3	S-4	Aghdash	234	110	13.5
R-5	Yevlakh–Zakatali–border with Georgia	164	164	54.8	S-5	Aghstafa	109	75	8.4
R-6	Hajigabul–Minjivan–border with Armenia	189	184	170.0	S-6	Aghsu	250	125	14.3
R-7	Nakhnichevan–Sadarak–border with Turkey	87	87	44.4	S-7	Astara	175	80	9.0
R-8	Nakhichevan–Zarani st.–border with Armenia	100	100	47.9	S-8	Balakan	242	125	11.4
R-9	Gandob–Yalama–border with Russia	88	88	23.5	S-9	Beylagan	159	80	9.0
R-10	Gilazi–Khizi	31	31	4.8	S-10	Barda	247	107	12.9
R-11	Guba–Gusar	12	12	4.0	S-11	Bilasovar	63	30	3.5
R-12	Guba–Khachmaz	22	22	5.3	S-12	Jalilabad	307	130	16.0
R-13	Gusar–Khudat	29	29	5.0	S-13	Dashkesan	248	95	11.8
R-14	G.Z. Taghiyev–Sahil	40	40	37.5	S-14	Davachi	165	75	9.6
R-15	G.Z. Taghiyev–Sumgait	18	18	5.0	S-15	Fizuli	205	140	17.0
R-16	Mughanli–Topchu	40	40	90.6	S-16	Gadabay	336	150	16.3
R-17	Garamaryam–Sheki entrance to Oghuz	158	158	38.7	S-17	Goranboy	330	172	15.5
R-18	Garamaryam–Mususlu	22	22	7.2	S-18	Goychay	224	108	12.9
R-19	Agsu–Kurdamir–Bahramtapa	113	113	33.9	S-19	Hajigabul	118	55	6.8
R-20	Goychay–Bargushad	18	18	4.2	S-20	Khachmaz	350	150	18.7
R-21	Goychay–Ujar	20	20	4.6	S-21	Khanlar	123	100	9.0
R-22	Agdash–Laki	10	10	2.5	S-22	Khizi	207	103	10.7
R-24	Goraghan–Gakh–Zagatala	43	43	6.7	S-23	Imishli	152	65	7.8
R-25	Khaldan–Mindachevir	14	14	3.5	S-24	Ismayilli	364	153	19.9
R-26	Mindachevir–Baramtapa	166	166	117.9	S-25	Kurdamir	243	110	13.0
R-27	Ganja–Khanlar–Togana	56	56	13.0	S-26	Gakh	178	92	10.3
R-28	Ganja–Dashkesan	38	38	7.1	S-27	Gazakh	110	77	8.4
R-29	Ganja–Samuh	8	8	0.8	S-28	Gabala	234	125	12.8
R-30	Shamkir–Gadabay	45	45	9.1	S-29	Gobustan	135	70	8.0
R-31	Gazakh–Uzuntala–border with Armenia	14	14	2.5	S-30	Guba	429	175	21.5
R-32	Agstafa–Poylu–border with Georgia	54	54	21.8	S-31	Gusar	299	137	16.1
R-33	Goran–Naftalan	18	18	2.5	S-32	Lerik	456	150	18.0
R-34	Goranboy–Terter	35	35	6.9	S-33	Lenkaran	201	104	11.7
R-35	Terter–Hindarkh	41	41	7.0	S-34	Masalli	194	99	10.7
R-36	Yevlakh–Barda–Khachinchay	54	54	16.5	S-35	Nefrchala	211	95	12.2
R-37	Barda–Kelbejer	37	37	12.0	S-36	Oghuz	152	80	9.0
R-38	Uchar–Zardab–Agjabedi	76	76	62.0	S-37	Saatli	132	60	7.5
R-39	Agjabedi–Hindarkh–Garadagli	40	40	22.0	S-38	Sabirabad	325	158	17.8

No.	Road Subproject	Total Length (km)	To be Improved (km)	Cost (\$ million)	No.	Road Subproject	Total Length (km)	To be Improved (km)	Cost (\$ million)
A. Republican Road (continued)					B. Secondary Road (continued)				
R-40	Agdam–Fizuli–Horadiz	10	10	3.1	S-39	Salyan	113	60	7.3
R-41	Upper Karabakh–Beylakan–Dashburun	32	32	10.0	S-40	Samukh	210	97	10.7
R-42	Bahramtapa–Bilyasuvar	62	62	18.8	S-41	Siyazan	166	74	9.2
R-43	Bilyasuvar–border with Iran	19	19	6.3	S-42	Shemakhi	298	136	15.3
R-44	Hajugabul–Ali Bayramli	11	11	3.1	S-43	Sheki	343	167	18.4
R-45	Ali Bayramli–Nakhodlu–Salyan	43	43	TBD	S-44	Shamkir	281	149	15.4
R-46	Salyan–Neftchala	40	40	8.5	S-45	Terter	128	95	11.3
R-47	Masalli–Yardimli	53	53	27.0	S-46	Tovuz	328	171	18.4
R-48	Nakhichevan–Shahbuz–border with Armenia	65	65	10.6	S-47	Ujar	296	138	17.9
R-49	M2 (km 371)–international airport in Ganja	11	11	5.5	S-48	Yardimli	300	119	15.0
R-50	M2 (km 336)–Ganja	8	8	4.0	S-49	Yevlakh	127	78	9.6
R-51	M2 (km 317)–Kurakchay railway street	5	5	1.3	S-50	Zakatala	257	127	13.4
R-52	M2 (km 376)–Alabashli railway street	8	8	1.8	S-51	Zardab	167	85	11.0
R-53	M2 (km 70)–Alyat railway street	5	5	1.1	S-52	Babek	159	78	9.3
R-54	M3 (km 220)–Masalli railway street	5	5	1.1	S-53	Julfa	151	70	8.1
R-55	M5 (km 17)–karimli	31	31	21.0	S-54	Kangarli	80	25	2.8
R-56	M5 (km 46)–Sheki	12	12	3.0	S-55	Ordubad	248	98	12.0
R-57	M5 (km 128)–Zakatala railway street	9	9	2.3	S-56	Sadarak	49	21	2.6
R-58	M5 (km 150)–Belakan railway street	2	2	0.5	S-57	Shakhbuz	174	112	14.1
R-59	M6 (km 94)–Imishli	7	7	1.8	S-58	Sharur	329	93	11.1
R-60	M7 (km 58)–Sharur	4	4	1.0					
R-61	M7 (km 80)–Sadarak	8	8	2.0					
R-62	M7 (km80)–Babek	3	3	0.8					
R-63	M8 (km 44)–Julfa	2	2	0.5					
R-64	M8 (km 75)–Ordubad railway street	5	5	1.1					
	Subtotal (A)	3,639	3,570	2,670.4		Subtotal (B)	12,435	5,928	680.7
Total (A + B)		16,074	9,498	3,351.1					

TBD = to be determined.

Source: Road Transport Service Department, Ministry of Transport, Republic of Azerbaijan. 2006. *Road Network Development Program, 2006–2015*. Baku.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Sustained economic development in Azerbaijan and its cooperation with neighboring counties</p>	<p>Growth of gross domestic product on a sustainable basis, from AZN20.6 billion in 2006</p> <p>Tangible progress on trade with neighboring countries, from \$2.2 billion in 2006</p>	<p>National economic and trade statistics</p>	<p>Assumptions Continued political and macroeconomic stabilities in Azerbaijan</p> <p>Implementation of the State Program on Poverty Reduction and Economic Development as planned</p> <p>Continued government commitment to regional cooperation</p>
<p>Outcome An adequate, efficient, safe, and sustainable road network in Azerbaijan, connecting the country domestically and internationally</p>	<p>Increased share of the roads in good and fair conditions in Azerbaijan from 10% in 2006 to 50% in 2015</p> <p>Increased freight traffic by 50% in 2015, from 7,536 million ton-kilometers in 2005</p> <p>Increased passenger traffic by 30% in 2015, 10,892 million passenger-kilometers in 2005</p> <p>Increased funding for road maintenance from \$55 million in 2006 to at least \$250 million in 2015</p> <p>Reduced road traffic accidents by 10% in 2015, from 3,179 in 2005</p>	<p>MFF progress and completion reports</p> <p>ARS surveys</p> <p>Road subsector budget and expenditure records</p> <p>ADB review missions</p>	<p>Assumptions Government's commitment to implement the Roadmap and the Road Network Development Program</p> <p>Adequate financing</p> <p>Risks Rapid deterioration of the road network due to weak axle-load control and insufficient funding for maintenance</p> <p>Limited coordination among government agencies during implementation of the MFF</p>
<p>Outputs A 4-lane expressway between Masalli and Astara on the southern corridor built, with access roads rehabilitated (Project 1)</p>	<p>About 59 km of the new expressway completed by 2009</p> <p>IRI value for the Masalli–Astara expressway maintained at no higher than 3.0 within 5 years after project completion, compared with the average IRI value of 11.0 in 2006.</p> <p>About 120 km of local roads linking the Masalli–</p>	<p>MFF progress and completion reports</p> <p>ARS surveys</p> <p>ADB review missions</p>	<p>Assumptions Support from local governments and communities</p> <p>Disputes among contractors, supervision consultants, and ARS avoided or promptly resolved</p> <p>Risks Delays in preparation and implementation of subsequent projects</p> <p>Cost overruns due to unexpected increases in prices</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>A 2-lane road between Ganja and Qazakh on the east-west corridor upgraded to a 4-lane expressway (Project 2)</p> <p>Road network management capacity strengthened (throughout the MFF)</p>	<p>Astara expressway rehabilitated by 2010</p> <p>About 94 km of the Ganja-Qazakh road upgraded three years after ADB approval of the second tranche</p> <p>Database on secondary roads established by 2009</p> <p>Legal and regulatory frameworks and operational procedures for toll roads developed by 2009</p>	<p>Consultant's reports</p>	<p>of commodities and raw materials</p>
<p>Activities with Milestones</p> <ol style="list-style-type: none"> 1. Periodic Financing Request (PFR) for Tranche 1 submitted by the Government and approved by ADB in September 2007. 2. Consultants for construction supervision, project monitoring and preparation of Project 2 under Project 1 recruited by November 2007. 3. Civil works contracts under Project 1 awarded by January 2008. 4. Construction starts in January 2008 and completed by December 2009. 5. Consultants for road network management capacity development recruited by May 2008 and work completed by December 2009 6. Feasibility study of Project 2 completed by June 2009. 			<p>Inputs</p> <p>Road Network Development Program :</p> <ul style="list-style-type: none"> • ADB: \$500 million • Azerbaijan and other external financiers: \$2,861.1 million <p>Project 1</p> <ul style="list-style-type: none"> • ADB: \$200 million (\$190 million from ordinary capital resources and \$10 million equivalent from Special Fund resources) • Azerbaijan: \$49 million

ADB = Asian Development Bank, ARS = AzerRoadService Open Joint-Stock Company; AZN = Azerbaijan manat, IRI = international roughness index, MFF = multitranches financing facility, PFR = periodic financing request.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

Project Executing Agencies

1. A Facility steering committee (FSC) will be established with representation from the Cabinet of Ministers' Office, Ministry of Economic Development, Ministry of Finance, MOT, ARS, and PIU amongst others. FSC will ensure interagency coordination, provide guidance on and supervise implementation. FSC will be chaired by a Deputy Minister of Transport and shall meet at least semiannually to review implementation progress and provide approvals and guidance as necessary. MOT shall be the Executing Agency for the Facility as described in Schedule 1 to this FFA, and shall be assisted by ARS, as implementing agency, responsible for daily management of the projects.

Project Implementation Unit

2. The joint PIU established under MOT and within ARS for the ongoing road sector projects financed by ADB, World Bank and EBRD will implement the projects and subprojects financed under the Facility. The PIU will comprise ARS staff and may be assisted by externally contracted staff to supplement limited human resources in ARS. The Facility will provide additional resources to support PIU.

Project Management Support

3. In the interest of providing continuity for project management, the PIU director shall serve in the position throughout the project implementation period, except in case of gross dereliction of duties or such other serious cause, provided that such a determination is made through due process. MOT, through ARS shall provide the PIU with adequate office space and support services in a form satisfactory to ADB throughout the implementation period. MOT, through ARS shall ensure that, upon completion of a project or subproject, PIU staff is integrated within it to implement future projects or subprojects under the Facility.

Counterpart Funding

4. Azerbaijan acting through relevant government authorities shall provide, on a timely basis, all counterpart funds, staff, land and other resources necessary for reconstruction, rehabilitation, operations, maintenance, and management of the Project facilities. MOT shall ensure that ARS can successfully implement Tranche I of the Facility as identified in Schedule 1, and operate and maintain project/subproject facilities after completion.

Construction Quality

5. MOT shall ensure that the projects and subprojects financed under the Facility comply with technical specifications of the design. MOT through ARS shall ensure that construction supervision, quality control, and project management are performed according to internationally accepted standards and practices.

Change in Ownership and Operation

6. In the event that (i) any change in ownership of the project or facilities, (ii) any sale, transfer, or assignment of interest or control in the project or facilities, or (iii) any lease or other contract or other modification of MOT's or ARS's functions and authority over operation and maintenance of the project or facilities, is anticipated, MOT shall ensure that ADB's consent is obtained at least six months prior to the implementation of such a plan. MOT shall ensure that any such changes shall be carried out in a legal and transparent manner.

Road Maintenance

7. MOT shall cause ARS to develop in consultation with ADB and approve a road maintenance plan for the fiscal years 2008-2015 by 31 September 2008, which will (i) establish a system for efficient planning and prioritization of road maintenance works; (ii) provide funding modalities to finance the maintenance of relevant roads acceptable to ADB, (iii) develop or adopt adequate road maintenance standards and prepare relevant road maintenance planning and operational manuals; and (iv) provide training to strengthen the capacity of local maintenance units. MOT shall ensure that a road maintenance program covering the country's road network is implemented.

8. Prior to the completion of civil works under Tranche I of the Facility, MOT shall have used its best efforts to enter into maintenance concession with a private sector entity for at least 20 km of local roads along the expressway financed under Tranche 1 of the Facility. MOT shall cause ARS to submit the bidding documents and the concession framework to ADB by the end of 2008.

Road Safety

9. At least six months prior to the opening for operation of the expressway road financed under Tranche I of the Facility, (i) MOT shall develop and implement a plan, acceptable to ADB, for ensuring safe operation of road infrastructure facilities; and (ii) Azerbaijan acting through relevant government authorities shall ensure that traffic police patrols the road and enforces the national laws and regulations. ARS shall ensure monitoring of the accident rate and traffic volume after commencement of the operation of the expressway road financed under the Facility and institute appropriate safety enforcement measures.

10. Azerbaijan acting through relevant government agencies shall ensure strict border control to prevent trafficking of humans, wildlife, endangered species, and illegal substances on the expressway road financed under the Facility.

Axle Loads

11. MOT shall cause ARS to establish vehicle weighing stations within the expressway road(s) financed under Tranche I of the Facility to control the axle overloading and institute appropriate procedures and regulations to enforce the axle load control by the completion of the relevant project or subproject.

Tolling

12. At least six months prior to the opening for operation of the expressway road financed under Tranche I of the Facility, ARS shall have provided ADB with MOT-endorsed

framework and definitive action plan for establishing tolling roads along any expressway road financed under the Facility. By mid 2010, ARS shall review and inform ADB of any significant difficulties in establishing tolls on expressway roads under the Azerbaijan's laws and regulations.

Vehicle Emissions

13. At least six months prior to the opening for operation of the expressway road financed under Tranche I of the Facility, ARS, jointly with concerned Government agencies, shall provide to ADB Azerbaijan's emission standards and the penalties for infringement of such standards. Azerbaijan shall ensure that through the relevant agencies, the said vehicle emission standards are enforced.

Project Auditing

14. MOT and ARS shall maintain separate project records and accounts adequate to identify the goods and services financed from the loan proceeds, financing resources received, expenditures incurred for the project, and use of local funds. These project accounts and related financial statements will be audited annually in accordance with sound auditing standards by an independent auditor acceptable to ADB. ARS shall submit annual audited reports and related financial statements to ADB within six months after the end of each fiscal year during implementation of the Facility. The audit of the imprest account and statement of expenditure will be carried out as part of the regular annual audit. The auditor's opinion of the examination of the imprest account and statement of expenditure should be separately set out in the auditor's report.

15. MOT shall cause an annual performance audit for each project or subproject financed under the Facility to be completed pursuant to the terms of reference to be developed by ADB. All costs incurred in connection with such performance audits will be paid out of the Facility.

Project Review

16. (a) ADB, MOED, MOF and MOT shall meet regularly as required to discuss the progress of the individual tranche and any changes to implementation arrangements or remedial measures required to be undertaken towards achieving the objectives of the tranche's projects and subprojects and of the Road Network Development Program.

(b) A midterm review of each project or subproject financed under the Facility will be undertaken by ADB and Azerbaijan. The midterm review will include review of issues and any problems or weaknesses in implementation arrangements, institutional, administrative, organizational, technical, environmental, social, poverty reduction, resettlement, economic, financial, and other relevant aspects that may have an impact on the performance of the Facility, its tranches, or individual projects or subprojects thereunder, and their continuing viability. The review shall also examine progress in resettlement, environment, poverty impact, and compliance with assurances in this FFA and agree on any changes needed to achieve the objectives of the Road Network Development Program.

(c) A similar midterm review of the Road Network Development Program by ADB and Azerbaijan will be undertaken in the third year from the date of approval of the Facility by ADB.

Policy Dialogue

17. MOT and ARS shall ensure that ADB is kept informed about Azerbaijan's policies and programs related to the road sector that will materially affect the financial viability of each project/subproject under the Road Network Development Program.

Governance and Anticorruption

18. MOF, MOT and ARS shall follow ADB's *Anticorruption Policy* (1998, as amended to date) and acknowledge that ADB, consistent with its commitment to good governance, accountability and transparency, reserves the right to undertake directly, or through its agents, investigation of any alleged corrupt, fraudulent, collusive or coercive practices related to the project/subproject and cooperate with such investigation and extend all necessary assistance including access to all relevant books and records, and engaging independent experts who may be needed for satisfactory completion of such investigations. All costs related to such investigations shall be borne by the Facility. MOT, through ARS, shall ensure implementation of the following measures: (i) anticorruption provisions acceptable to ADB shall be included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the project/subproject of the Facility; (ii) all decisions relating to procurement shall be made by the Tendering Committee that comprises representatives of the Ministry of Economic Development, Ministry of Finance, MOT, and the State Procurement Agency (as observer) and other relevant agencies in accordance with ADB's Procurement Guidelines; and (iii) the supervision consultant shall verify the contractors' invoices in accordance with working drawings and contract specifications. MOF, MOT and ARS agreed to take additional measures to improve governance, accountability, and transparency, including (i) independent external auditing of contracts, accounts, and financial statements; (ii) timely disclosure of information on selection of consultants and contractors through local newspapers.

Monitoring and Evaluation

19. MOT shall cause ARS, with the assistance of the PIU and the Supervision Consultant, to monitor and evaluate project impacts to ensure that the project facilities are managed effectively and the project benefits maximized. MOT shall ensure that ARS collects the data agreed with ADB at the inception, project completion, and 3 years after project completion.

20. Within three months of the effective date of the loan agreement for every tranche under the Facility, MOT will establish a Project Performance Management System (PPMS) in a form and substance acceptable to ADB, in accordance with the Road Network Development Program and project or subproject performance indicators. The Design and Monitoring Framework for the Facility is set forth at Schedule 2 hereto. ARS will undertake periodic project or subproject performance review under each individual Loan, as also for the Investment Plan, in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project or subprojects and overall Investment Plan.

21. MOT shall cause ARS to prepare and submit to ADB quarterly progress reports for the individual project or subprojects under the Facility. The reports will include a description

of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of loan expenditures during the period, year to date, and total to date, and include a report on progress of the implementation of mitigation measures as specified in the contracts and EMP and measures to ensure environmentally responsible procurement.

22. A project or subproject completion report will be submitted to ADB within three months following completion of each project or subproject. A Facility completion report will be submitted to ADB within three months following completion of the Facility. The completion reports shall cover a detailed evaluation of the projects and subprojects financed under the Facility and of the Facility as a whole, covering the design, costs, contractors' and consultants' performance, social, environmental and economic impact, economic rate of return, and other details for each project/subproject and the Facility as may be requested by ADB.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR PROJECTS and SUBPROJECTS under the FACILITY

1. ADB will only finance projects/subprojects that (i) are part of the Transport Sector Development Strategy adopted by Azerbaijan as described in Schedule 1 to this FFA, (ii) adhere to the implementation arrangements set forth in Schedule 3 to this FFA; (iii) fully comply with the safeguard frameworks set forth in Schedule 5 to this FFA; and (iv) meet the eligibility requirements set forth in this Schedule 4.

Selection Criteria

2. To be financed under the Facility, each proposed project or, as may be applicable under Tranche I only, each proposed subproject shall:
- (i) construct, upgrade, or rehabilitate roads of high development priority, assessed from their contribution to the objectives of the State Programme on Poverty Reduction and Economic Development (SPPRED);
 - (ii) be in line with approved feasibility assessment meeting the engineering, financial, economic, environmental, and social requirements of Azerbaijan and ADB;
 - (iii) have been allocated counterpart funding sufficient to implement the project or subprojects as scheduled and maintain such project/subprojects' facilities upon completion; and
 - (iv) have been granted government approvals and endorsements.

Approval Procedures

3. Approval procedures for projects or, as may be applicable under Tranche I, subprojects proposed for financing under the Facility will follow the required government review and approval processes as supplemented by the requirements of MOT attached to Schedule 5 to this FFA.

4. For the project or subprojects proposed for financing under Tranche I of this Facility, all necessary government approvals have been obtained as of the date of this FFA.

5. For all projects intended for financing under subsequent tranches of the Facility, the approval procedures will be as follows:

- (i) ARS will review the project proposals to confirm compliance with eligibility criteria and then submit those eligible projects or subproject proposals to MOT for endorsement.
- (ii) ARS will prepare a PFR in a format agreed with ADB to finance specific projects, and submit it to MOT for review and approval. Upon approval of MOT, ARS will submit, through MOT, the PFR to ADB, together with those eligible project proposals.

- (iii) For the projects that are added in the course of updating the Government's Road Network Development Program, all statutory clearances should be sought prior to the submission of the PFRs to ADB.
- (iv) MOT, ARS, and ADB will maintain contact through periodic ADB review missions and quarterly progress reports, and in so doing may effect advanced consultation on PFRs prior to submission to ADB.
- (v) Subject to satisfactory compliance with the selection criteria and approval procedures, and in compliance with ADB's relevant policies, ADB will approve the proposals of the projects or, as may be applicable under Tranche I, subprojects.
- (vi) Upon receipt of ADB approval, ARS will proceed with tendering in accordance with ADB's *Procurement Guidelines*.

SCHEDULE 5

SAFEGUARDS REQUIREMENTS AND SOCIAL PROTECTION MEASURES

1. Azerbaijan will ensure that the requirements prescribed in this Schedule and its Appendices: the Environmental Assessment and Review Framework (EARF), and the Resettlement Framework (RF), which have been prepared with respect to the Facility and of which ADB has been provided full copies, are complied with during the processing and implementation of the projects and subprojects financed under the Facility.
2. Prior to the preparation of each PFR, the applicability and relevance of each Safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's (i) *Involuntary Resettlement Policy* (1995), (ii) *Indigenous People Policy* (1998), and (iii) *Environment Policy* (2002) (collectively referred to as the "Safeguard Policies"), as amended from time to time.
3. In all cases, for each new PFR preparation, ARS will review on-going projects and subprojects under the Facility to check on the status of compliance with the safeguards plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the projects and subprojects included in the tranche being processed. In any case if major noncompliance is discovered in the course of the review of on-going subprojects, a corrective action plan will be prepared and submitted to ADB.
4. In addition, all ADB Safeguards Policies in effect as of the date the financing of a project or subproject is prepared or provided under the Facility will apply to such project or subproject. In the event there is a discrepancy between the laws and regulations of Azerbaijan and ADB's Safeguards Policies, then ADB's Safeguards Policies shall prevail.

Environment

5. ARS shall ensure that each project and subproject and all facilities financed under the Facility are developed, conducted, implemented and maintained in accordance with all applicable laws and regulations of Azerbaijan and ADB's *Environment Policy* (2002).
6. ARS shall ensure that a relevant environmental impact assessment (EIA) or initial environmental examination (IEE) (as applicable) is prepared for each project/subproject financed under the Facility in accordance with all applicable laws of Azerbaijan and ADB's *Environment Policy*, and that all EIA/IEEs are approved by ADB and Azerbaijan's Ministry of Ecology and Natural Resources and are adhered to during design, construction and operation phases of such projects/subprojects. If a sector loan finances a tranche under the Facility, then ARS shall ensure that an Environmental Assessment and Review Procedure (EARP) has been prepared to cover all proposed subprojects, except to the extent already covered by an EIA/IEE.
7. ARS shall ensure that the environmental management plan (EMP) is implemented. All recommendations of the EMP are incorporated in the bidding documents, civil works contracts and consultant's contracts to ensure compliance.
8. ARS shall: (a) monitor the implementation of EMPs by the contractor; (b) ensure that civil works and consulting services contracts include specific provisions for EMPs'

preparation, implementation and monitoring, (c) ensure that mitigation measures in EMPs are adequately implemented by the contractors, and (d) provide adequate budgetary allocation for this activity. ARS shall also ensure timely submission of semi-annual monitoring reports on EMPs implementation to ADB.

9. No civil works contract shall be awarded until the corresponding initial environmental examination or environmental impact assessment as may be applicable to project/subproject financed under the Facility has been approved by ADB.

Land Acquisition and Resettlement

10. ARS shall ensure that all land and rights-of-way required by the projects/subprojects are made available free and clear from any and all rights and claims of third parties and any other encumbrances whatsoever in a timely manner and that the provisions of the Resettlement Plans (RPs) are implemented in conformity with (i) all applicable laws and regulations of Azerbaijan, (ii) ADB's *Involuntary Resettlement Policy* (1995), and the agreed Resettlement Framework (RF).

- (i) RF shall be reviewed, if necessary updated, and submitted for ADB approval at least annually and at the beginning of the preparation of each tranche under the Facility. An RP consistent with the reviewed and updated RF shall be prepared for each project (subproject, in case Tranche I is financed as a sector loan) proposed for financing under the Facility.
- (ii) Preparation of RF for the Facility and preparation an RP for the Project 1 (or its core subproject, in case Tranche I is financed as a sector loan) consistent with the RF shall be a condition for such Facility and tranche appraisal.
- (iii) The review and update of RF and preparation of an RP for each subsequent project (or non-core subproject, in case Tranche I is financed as a sector loan) consistent with the RF shall be a condition for such project/subproject appraisal.
- (iv) Preparation of an updated RP for each project (or subproject, in case Tranche I is financed as a sector loan) based on the final design and consistent with the RF shall be a condition for approval of the award of relevant civil works contract(s).
- (v) Completion of the implementation of the full RP shall be a condition for the commencement of civil works. ARS shall incorporate this condition in the civil works contract(s).

11. Pursuant to ADB's *Involuntary Resettlement Policy* (1995) the following shall be required:

- (i) compensation shall be provided at replacement cost together with any entitlements as stipulated in the approved RF and Resettlement Plan;
- (ii) lack of formal title will not be a bar to resettlement assistance or rehabilitation for land or any other loss;
- (iii) counterpart funds and disbursements shall be timely provided to affected persons, with agreed compensation and rehabilitation provided to them prior to any land, house or other affected asset being taken;
- (iv) Azerbaijan shall meet any unforeseen obligations in excess of budget estimates;

- (vi) consultations and grievances related to the investment project/subproject's resettlement activities shall be documented;
- (vii) Resettlement Plans shall be updated if an investment project/subproject is modified such that there are different or additional resettlement impacts; and
- (vii) resettlement activities shall be reported to ADB as part of the quarterly progress reports by ARS.

12. MOT, acting through ARS, shall ensure that within 3 months of the effective date of the loan agreement under relevant tranche, the PIU engages an independent agency, acceptable to ADB, to conduct independent external monitoring and evaluation of the resettlement process and impacts. Reports of the independent monitoring agency will be submitted to ADB on a quarterly basis.

13. No civil works contract shall be awarded until Resettlement Plan as may be applicable to project/subproject financed under the Facility has been approved by ADB.

14. Contractors may only commence civil works after the Resettlement Plan has been implemented in accordance with its terms.

Social Impacts, Gender Development and Other Issues

15. ARS shall ensure an independent monitoring of the social impacts throughout implementation of the Facility, in consultation with local governments, local communities, and nongovernment organizations. In this respect, ARS shall ensure that all civil works contractors (i) comply with all applicable labor laws, (ii) use their best efforts to employ women and local people, including disadvantaged people, living in the vicinity of the project/subproject financed under the Facility, (iii) disseminate information at worksites on health safety for those employed during construction, (iv) provide equal pay to men and women for work of equal type, (v) provide safe working conditions and separate culturally appropriate facilities for male and female workers, and (vi) abstain from child labor. Contracts for all projects/subprojects to be financed under the Facility must include specific clauses on these undertakings, and compliance will be strictly monitored during Road Network Development Program implementation. ARS shall ensure that compliance with these provisions is monitored by the PIU.

16. ARS with assistance of Project management consultants shall develop the gender action plan (GAP) within six (6) months of the Effective Date of each Tranche, ensure that it is fully implemented in a timely manner over the Project period, and ensure that adequate resources are allocated for this purpose. The GAP shall: (a) ensure women's representation in management and dispute resolution bodies of resettled communities, (b) integrate women's needs in the design and operation of projects financed from the Facility; (c) establish targets for women's participation in training, construction and maintenance, and other project activities; and (d) ensure women's effective involvement in the monitoring and evaluation of relevant project and the Facility as a whole. ARS with assistance of project management consultants shall develop a field manual on GAP implementation and conduct training for project staff. Gender-related indicators shall be included in PPMS and sex-disaggregated data shall be collected and monitored. ARS shall closely monitor GAP implementation and report the progress to ADB semiannually.