



Asian Development Bank

Facility Administration Manual

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Republic of Azerbaijan:
Second Road Network Development Investment
Program

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Facility Administration Manual Purpose and Process

The facility administration manual (FAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The FAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the FAM.

The Ministry of Transport (MOT) and AzerRoadServices Open Joint-Stock Company (ARS) are wholly responsible for the implementation of ADB financed projects, as agreed jointly between the borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by MOT and ARS of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the FAM and ensure consistency with the Framework Financing Agreement (FFA). Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the FAM and the FFA, the provisions of the FFA shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the FAM.

ABBREVIATIONS

ADB	=	Asian Development Bank
ADF	=	Asian Development Fund
AFS	=	audited financial statements
ARS	=	AzerRoadServices Open Joint-Stock Company
CQS	=	consultant qualification selection
DMF	=	design and monitoring framework
EARF	=	environmental assessment and review framework
EIA	=	environmental impact assessment
EMP	=	environmental management plan
ESMS	=	environmental and social management system
GACAP	=	governance and anticorruption action plan
GDP	=	gross domestic product
ICB	=	international competitive bidding
IEE	=	initial environmental examination
IPP	=	indigenous people plan
IPPF	=	indigenous people planning framework
LAR	=	land acquisition and resettlement
LIBOR	=	London interbank offered rate
MOT	=	Ministry of Transport
NCB	=	national competitive bidding
NGOs	=	nongovernment organizations
PAI	=	project administration instructions
PAM	=	project administration manual
PIU	=	project implementation unit
QBS	=	quality based selection
QCBS	=	quality- and cost based selection
RRP	=	report and recommendation of the President to the Board
SBD	=	standard bidding documents
SGIA	=	second generation imprest accounts
SOE	=	statement of expenditure
SPS	=	Safeguard Policy Statement
SPRSS	=	summary poverty reduction and social strategy
TOR	=	terms of reference

I. PROGRAM/PROJECT DESCRIPTION

A. Rationale

1. The transport sector in Azerbaijan, of which roads comprise the dominant mode of freight and passenger transport, plays an important role in the economy, accounting for around 6% of the gross domestic product (GDP). The country occupies an important geographical position in terms of transit routes, with roads and railway lines connecting the areas of the Black Sea and the Caspian Sea. Thus the transport sector contributes to regional cooperation by facilitating the development of international trade. This sector is also crucial to the domestic economy since it links the rural population to urban and international markets.

2. In the past, Azerbaijan's economy has been mainly dependent on oil sector revenues. With the oil boom expected to last for a finite period, the Government has put emphasis on the development of non-oil sector infrastructure to sustain economic growth. Accordingly, over the past few years, Azerbaijan has been rehabilitating and developing the non-oil sector infrastructure needed to sustain rapid growth, benefiting from increasing oil and gas revenues, and also putting in place a credible framework to effectively manage the increase in resource flows. The development of transport infrastructure is one of the key tasks of the Government to sustain GDP growth and promote trade with neighbouring countries. The poor condition of the national road network poses a challenge. Approximately 56% of the main road network is in a poor state and needs urgent repair, and the majority of lower category roads are in an extremely poor condition. Among other road sections, the East-West road corridor (Baku–Ganja–Gazakh–Georgian border through Alyat and a more direct route through Shamakhi, and the North–South road corridor (Russian border–Baku–Alyat–Astara–Iranian border), as well as feeder roads connecting rural areas with the main corridors, are considered to be key to addressing the transport bottleneck to nationwide development and poverty alleviation.

3. **Strategic context and roadmap.** The State Program on Poverty Reduction and Economic Development (SPPRED) 2008–2015¹ and the State Program on Socioeconomic Development of Regions (SPSDR) (2009–2014)² represents the Government's overall strategic framework for development. The infrastructure pillar of the SPPRED contemplates, among other things, the reconstruction of a significant portion of the country's roads in accordance with international standards. To realize the strategic goal for road reconstruction, the Government prepared a Road Network Development Program (RNDP)³ for 2006–2015, which was subsequently extended to cover the period of 2006–2022. Under the RNDP, the reconstruction and rehabilitation of about 9,500 km of roads is contemplated during the period of 2006–2022 at an estimated total cost of \$8.46 billion (in 2012 prices). Through both physical and nonphysical interventions, the RNDP establishes a roadmap for the development of an efficient, safe, sustainable, and internationally and domestically integrated transport network in support of the country's economic and social development. Supporting new priority projects of the Government necessitates a new MFF. The strategy and roadmap of first MFF, which have been updated,

¹ Republic of Azerbaijan. 2008. *State Program on Poverty Reduction and Economic Development, 2008–2015*. Baku.

² Republic of Azerbaijan. 2009. *State Program on Socioeconomic Development of Regions, 2009–2014*. Baku.

³ The Ministry of Transport prepared a Road Network Development Program for 2006–2015 in July 2006 at an estimated cost of \$5.3 billion (in 2006 prices) covering about 9,500 km of roads. While the Government undertook implementation of the road projects along the lines presented in the RNDP, there were delays in implementation of RNDP mainly due to delays in land acquisition and resettlement, project readiness, delays in procurement of works and consulting services, and lack of institutional capabilities.

remain valid for this new MFF. The proposed investment program fits well with the overall transport sector development strategy⁴ of the Government.

4. **New MFF.** The Alyat–Masalli road, which is a priority project under the Government's RNDP, was originally planned for implementation under the World Bank financed Highway II Project. The World Bank dropped about 63 km road section (Masalli to Shorsulu) from their investment program, due to the reasons: (i) experienced cost overruns and low disbursement rates from their ongoing projects, (ii) even additional financing was not enough to finance up to this section, (iii) World Bank policy restrict additional investments, when the disbursements level from ongoing projects are below the minimum. However, the preparatory works such as detailed designs, cost estimates and safeguard documents, etc., have been prepared by the World Bank. Land acquisition and resettlement (LAR) activities have been substantially completed as per the World Bank's LAR. Thus considering the level of project readiness, the Government has requested ADB to provide a new MFF (proposed investment program) to finance the construction between Masalli and Shorsulu. ADB has carried out due diligence of the above preparatory documents to confirm to ADB's policies and requirements.

5. The proposed investments, physical and nonphysical in nature, will add to those already being supported by ADB and other development partners. Built on the results of the ongoing first Road Network Development Program (footnote 9) and through a holistic road subsector based approach involving physical investment and capacity development, Azerbaijan's road network will become more effective and efficient. The investment program will include capacity development component for (A) strengthening the capacity of executing agency (EA) and implementing agency (IA) through special training and on job-training in strategic planning, project preparation and implementation; (B) assisting EA/IA in (i) mainstreaming road safety audits during design, construction and implementation phases of the road network and prescribing road safety improvements, (ii) development of road standards and specifications including for pavement layers under different climatic and site conditions and (iii) prioritizing road sections for long term performance based maintenance contracts.

6. Compared to stand alone loan, the MFF is the suitable funding modality given its flexibility, ability to sequence investments considering the full readiness of the program. Additionally, the 'country allocation' limitation doesn't allow stand alone loan to the extent required to finance the 63 km of highway section. All the preconditions for the MFF are in place, including the existence of a coherent strategy, sector roadmap, investment and financing plans, and policy framework. Preparatory works for the sections of the road under 2 tranches have been completed and tranches are ready in all respects for implementation. Considering the experiences from the first MFF and to ensure continuity, the government selects MFF modality to finance this motorway section. Based on the near-term investment requirements of the Government, the new MFF, amounting to \$500 million has been planned at 80% of the estimated cost of the proposed investment program. This will consolidate the partnership started under the existing MFF. The lessons learnt from the implementation of the first Road Network Development Program and from World Bank projects – such as cost overruns, slow implementation, and low disbursement rates have been incorporated in designing the new MFF.

7. **Impact and Outcome.** The impact of the investment program will be sustainable economic growth in Azerbaijan and expanded trade with neighbouring countries. The outcome

⁴ In support of implementing SPPRED (2008–2015) and other programs of the Government, the Ministry of Transport prepared a transport policy paper, followed by a transport sector development strategy developed with ADB assistance [ADB. 2006. *Republic of Azerbaijan: Transport Sector Development Strategy*. Baku. (Technical Assistance Consultant Report)].

of the investment program will be an adequate, efficient, safe, and sustainable road network, linking Azerbaijan domestically and internationally.

8. **Outputs of the Investment Plan.** The outputs will be:

- (i) construction of approximately 63 km of the motorway between Masalli and Shorsulu;
- (ii) project implementation support to AzerRoadServices (ARS) for construction supervision and program management covering planning, procurement, project implementation, financial management and compliance with safeguard requirements; and
- (iii) improved transport sector governance through road network management for sustainability, comprising (a) mainstreaming of road safety audits in Azerbaijan, (b) development of road standards and specifications, including pavement layer design standards and specifications and (c) developing long term performance based road maintenance contracts.

9. **Outputs of Tranche 1.** The outputs of Tranches 1 will be:

- (i) construction of an approximately 30 km section of the new motorway between Masalli and Jalilabad of the Masalli–Shorsulu road, and
- (ii) program/project implementation support to ARS for construction supervision and program management.

10. **Outputs of Tranche 2.** The outputs of Tranche 2 will be:

- (i) construction of an approximately 33 km section of the new motorway between Jalilabad and Shorsulu of the Masalli–Shorsulu road,
- (ii) program/project implementation support to ARS for construction supervision and program management, and
- (iii) improved transport sector governance through mainstreaming the road safety audits and improvements; development of pavement standards and guidelines; and performance based maintenance contracts.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities for Tranche 1

11. Detailed design, cost estimates and safeguard documents, etc., prepared by the World Bank have been considered for Tranche 1 and 2 projects under the investment program after necessary due diligence to confirm to ADB's policies and requirements. The Project Implementation Unit (PIU) in ARS will manage implementation of the investment program, together with the World Bank-assisted highway II project. The overall readiness activities for Tranche 1 are in Table 2.1

Table 2.1: Project Readiness Activities for Tranche 1

Indicative Activities	2012							Who responsible
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	
Advance contracting actions		✓						ARS
Approve and disclose safeguard documents								
• EARF and EIA	✓							ARS, ADB
• LARF and LARP	✓							ARS, ADB
Establish project implementation arrangements	✓							MOT, MoF
Loan Negotiations, Execution of FFA and Delivery of PFR-1		✓						MoF, ADB
ADB Board approval of MFF				✓				ADB
ADB President approval of Tranche 1				✓				ADB
Loan signing					✓			MoF, ADB
Government legal opinion provided						✓		MoF
Allocation of counterpart funding							✓	MoF
Loan effectiveness							✓	ADB

ADB = Asian Development Bank, ARS = AzerRoadServices Open Joint-Stock Company, EARF = environmental assessment and review framework, EIA = environmental impact assessment, LARF = land acquisition and resettlement framework, LARP = land acquisition and resettlement plan; MFF = multitranche financing facility, MoF = Ministry of Finance, MOT = Ministry of Transport, PFR = periodic financing request.

12. For Tranche 2, the ARS will provide: (i) a project appraisal report, including technical, economic, financial, environmental, and social assessments; and (ii) a PFR. The project report will be prepared in accordance with the criteria and procedures stated in Schedule 4 of the FFA and other related requirements of the Government and ADB. After appraising for technical and economic feasibility and compliance with safeguard requirements, ARS will submit to ADB a summary appraisal report to be agreed between ADB and MOT. ADB will then undertake due diligence in accordance with its relevant policies and procedures, and approve the appraisal, subject to any amendments. If required by ADB, the MOT will amend the PFR and submit it to ADB for approval on or before the due date of the PFR.

B. Overall Program/Project Implementation Plan

13. The investment program will be implemented over a period of seven (7) years and will be completed by 31 December 2020. The physical implementation of Tranche 1 will be completed by 30 June 2016. Overall program implementation plan and the implementation plan for Tranche 1 are shown in Figures 2.1 and 2.2. The implementation plans shall be updated annually by ARS together with ADB.

14. The detailed implementation schedule for the subsequent projects will be prepared during implementation of the respective tranches.

Figure 2.1: Overall Program/Project Implementation Plan

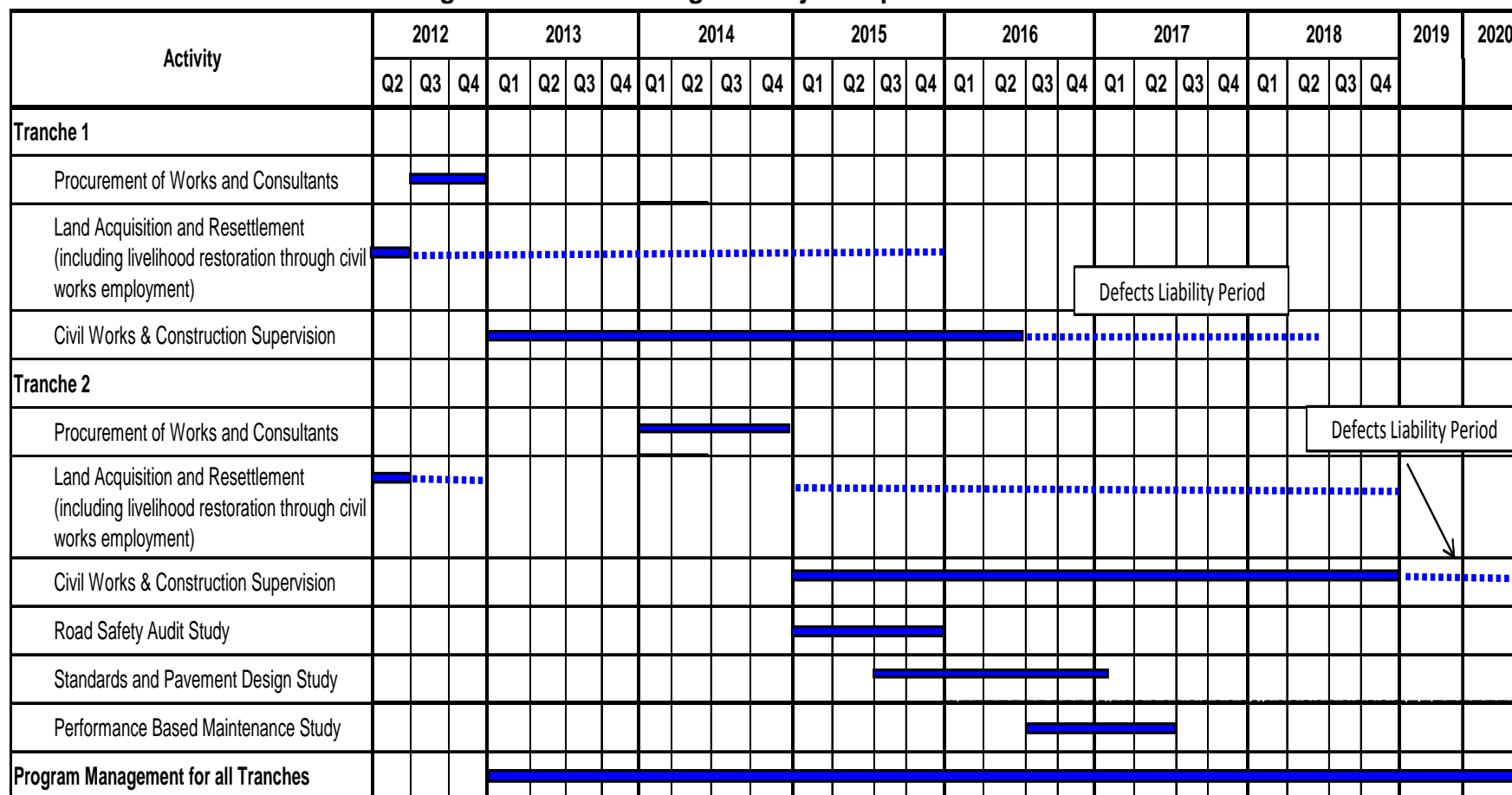


Figure 2.2: Implementation Plan for Tranche 1

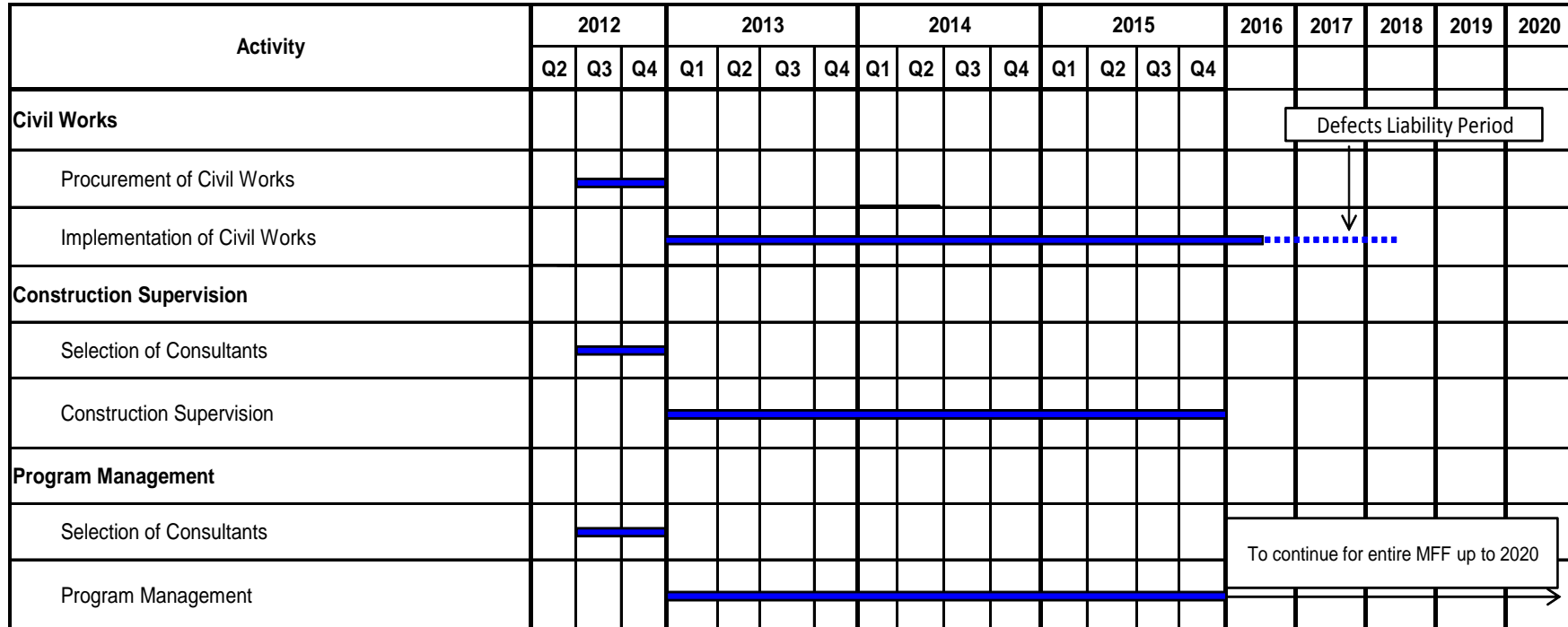


Figure 2.3: Implementation Plan for Tranche 2
 (To be inserted at the time of approval of Tranche 2 project)

III. PROGRAM/PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations – Roles and Responsibilities

15. The Ministry of Transport (MOT) will be the executing agency and ARS will be the implementing agency. In order to administer the program/project effectively, the existing Steering Committee chaired by a deputy minister of transport, with representations from the Cabinet of Ministers' Office, Ministry of Economic Development, Ministry of Finance, Ministry of Transport, ARS, and the PIU director among others constituted by the Government to oversee the implementation of the first Road Network Development Program will continue to provide overall guidance for the implementation of the investment program as Program Steering Committee (PSC). PSC will meet quarterly to monitor and ensure taking appropriate measures for timely implementation of the projects. PSC will ensure interagency coordination to facilitate timely approvals from various agencies and provide overall guidance for implementation of the investment program.

16. ARS will be responsible for day to day implementation activities. ARS will expand the existing project implementation unit (PIU) to implement the investment program. Given limited technical staff in PIU, a Program Management Consultant (PMC) will be engaged, under Tranche 1. Based on such PMC's performance under tranche 1, the scope of its contract may be extended to cover various studies for transport sector governance under tranche 2 and to assist ARS in implementation of the projects covering the entire investment program. PMC will also build the ARS's capacity through on the job training and other specialized trainings for PIU, including the capacity to integrate climate proofing measures in the road design, procurement, construction monitoring and maintenance, environmental and social safeguards, financial management, contract and project management so that the PIU staff can independently handle program management in future. PMC shall help ARS in submitting project/program management reports to MOT and ADB. Thus PMC role is to build the capacity and not to substitute the capacity. The implementation plan for PMC is shown in Figure 3.2.

17. The PMC and PIU jointly will oversee all activities under the investment program, including project preparation and implementation, procurement of works and selection of consultants, disbursements and financial management, compliance with safeguard requirements and reporting to MOT and ADB. PMC will introduce a suitable management information system in the PIU and train them for efficient and effective management of the investment program. The PMC will assist ARS in preparing and submitting flash reports and photographs concerning implementation progress of each tranche. It will also submit other required performance and monitoring reports consistent with existing project implementation requirements and compliance with covenants. The implementation progress reports will include evaluation of issues/problems and recommendations for remedial actions.

Table 3.1: Project Implementation Organizations – Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
Program Steering Committee (PSC)	<ul style="list-style-type: none"> • Monitor and ensure taking appropriate measures for timely implementation of the investment program; • Interagency coordination to facilitate timely approvals from various agencies; • Provide overall guidance for implementation of the investment program;

Project implementation organizations	Management Roles and Responsibilities
AzerRoadServices Open Joint-Stock Company	<ul style="list-style-type: none"> • Review implementation progress and resolve issues; • Chaired by a deputy minister of transport, with representatives from Cabinet of Ministers' Office, Ministry of Economic Development, Ministry of Finance, Ministry of Transport, ARS, and the PIU director among others; and • To meet periodically. <ul style="list-style-type: none"> • Successful implementation of all components of each tranche under the investment program; • Timely engagement of the contractors and consultants; • Overall project management; finalizing surveys, design, bidding documents, and contract awards; • Monitor and evaluate project activities and outputs, including periodic review, preparation of review and progress reports reflecting issues and time-bound actions taken (or to be taken), and their timely submission to ADB; • Prepare regular periodic progress reports, monitoring and evaluation; • reports, and project completion report and their timely submission to MoF and ADB; • Establish strong financial management system and submit timely withdrawal applications to ADB, conducting timely financial audits as per agreed timeframe, submitting audited project account reports, and taking recommended actions; • Process and submit to ADB any request, when required, for reallocating the loan proceeds; • Submit subsequent PFRs for subsequent tranches and projects under the investment program; • Involve beneficiaries and civil society representatives in all stages of project design and implementation; • Public disclosure of project outputs and procurement results; • Quality assurance of works, and services of consultants and counterpart staff; • Ensure compliance with all loan covenants and reporting to ADB on compliance with covenants; • Prepare, implement, and monitor safeguards in accordance with the LARF and EARF, ADB's SPS (2009), Loan Agreement and the Financing Agreement; • Establish a grievance redress mechanism with a dedicated grievance staff to address all subproject-related grievance; • Ensure projects' sustainability during post implementation stage and reporting to ADB on the assessed development impacts.
Program Management Consultants	<ul style="list-style-type: none"> • Overall program management of the investment program; • Jointly with ARS/PIU to oversee all activities under the investment program, including project preparation and implementation, procurement of works and selection of

Project implementation organizations	Management Roles and Responsibilities
	<p>consultants, disbursements and financial management, contract administration, compliance with safeguard requirements (including monitoring and reporting of activities for livelihood restoration of DPs) and reporting to ADB and EA;</p> <ul style="list-style-type: none"> • Assist ARS to ensure reduced time for procurement and contracting of works, goods, and services; on-time and within budget completion of works; and timely payment to contractors and consultants; • Assist ARS in engaging contractors and consultants and in contract administration; • Provide capacity building support for ARS through on-the-job and specialized training in integrating climate proofing measures in the road design, procurement, construction monitoring and maintenance, environmental and social safeguards, financial management, contract and project management • Assist ARS to ensure compliance with loan covenants by the borrower/executing agency/ARS; • Assist ARS in grievance redress management and reporting • Assist ARS to submit snapshot of progress with special emphasis on the major problems in implementation of the projects and the steps that are required to be taken by the Employer / Consultants to overcome such problems.
Asian Development Bank	<ul style="list-style-type: none"> • Assist the MOT and ARS in providing timely guidance at each stage of the project for smooth implementation in accordance with the agreed implementation arrangements; • Review all the documents that require ADB approval; • Conduct regular loan review missions, a mid-term review, and project completion mission; • Timely processing of withdrawal applications and release eligible funds; • Update regularly the project performance review reports with the assistance of MoF and ARS; • Update and post on ADB website the project information for public disclosure, and the safeguards documents in accordance with the ADB SPS (2009).
Ministry of Transport (MoT)	<ul style="list-style-type: none"> • Overall responsibility in coordinating program, tranches and projects; • Ensure timely provision of agreed counterpart funds and approval for project activities; • Submit subsequent PFRs for subsequent tranches and projects under the investment program; • Involve beneficiaries and civil society representatives in all stages of project design and implementation; • Public disclosure of project outputs and procurement results; • Ensure timely implementation of the projects under the

Project implementation organizations	Management Roles and Responsibilities
Ministry of Finance (MoF)	<p>investment program;</p> <ul style="list-style-type: none"> • Ensure compliance with all loan covenants and reporting to ADB on compliance with covenants; • Signing the FFA and the Loan Agreement for each Project; • Monitoring of the investment program implementation and providing respective coordination and facilitation; • Budgeting, allocating and releasing counterpart funds; • Endorsing to ADB the authorized staff with approved signatures for WAs processing; and • Processing and submitting to ADB any request, when required, for reallocating the loan proceeds.

B. Key Persons Involved in Implementation

1. The Executing Agency

Name	Position	Contact Number
Ziya Mammadov	Minister Ministry of Transport	Tel.: +994 12 430 9941 Fax: +994 12 430 9942 ziyamamedov@mintrans.az
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Adil Gojayev	Director, Project Implementation Unit AzerRoadServices Open Joint-Stock Company	Tel.: +994 12 493 0045 Fax: +994 12 493 4665 info@piu-ahp.az silkway@online.az

2. Asian Development Bank

Name	Position	Contact Number
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B. Reddy Bathula	Senior Transport Specialist Transport and Communications Division, CWRD	Tel.: +63 2 632 5646 Fax: +63 2 636 2428 bbathula@adb.org

C. Project Organization Structure

Figure 3.1: Project Organization Structure

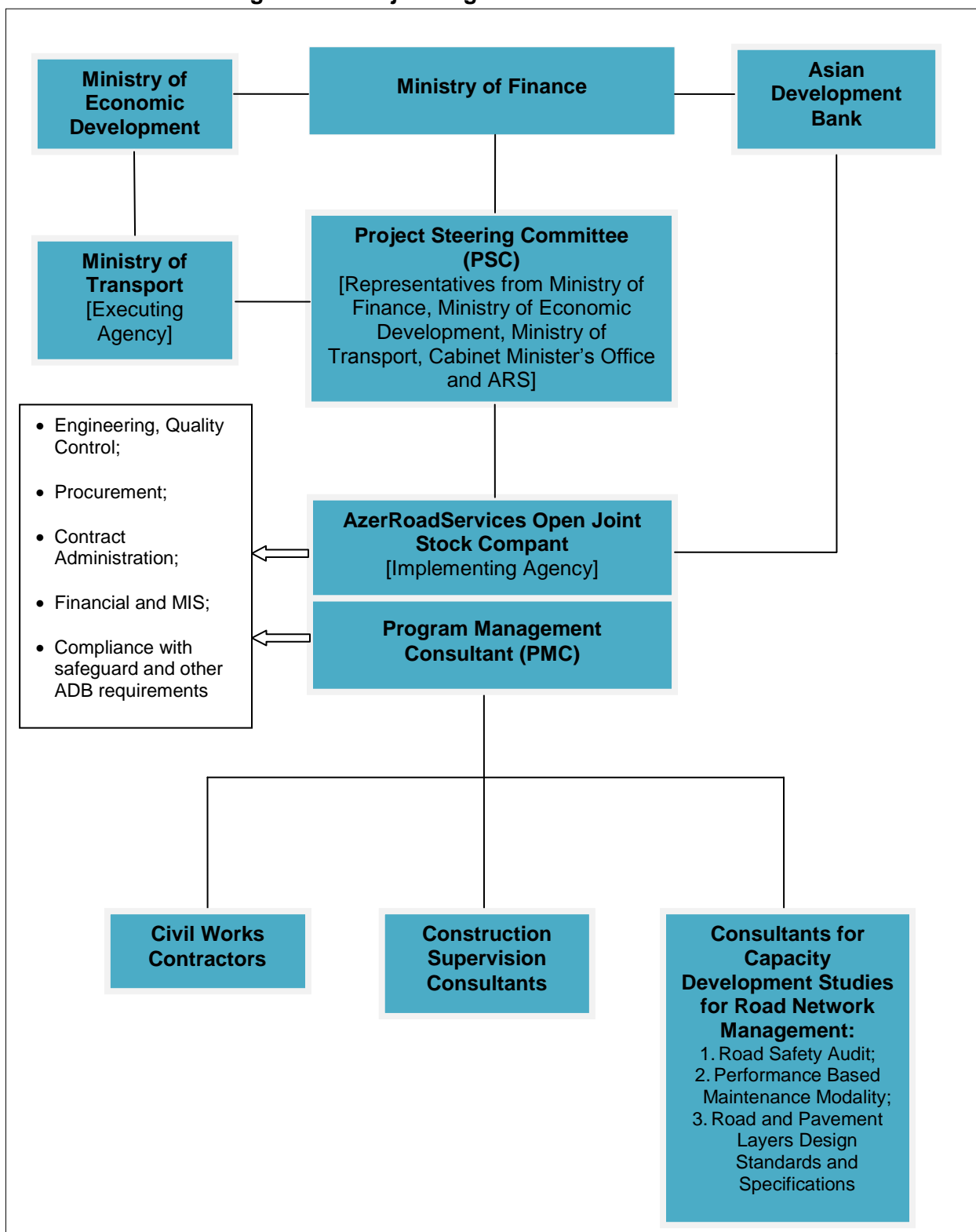
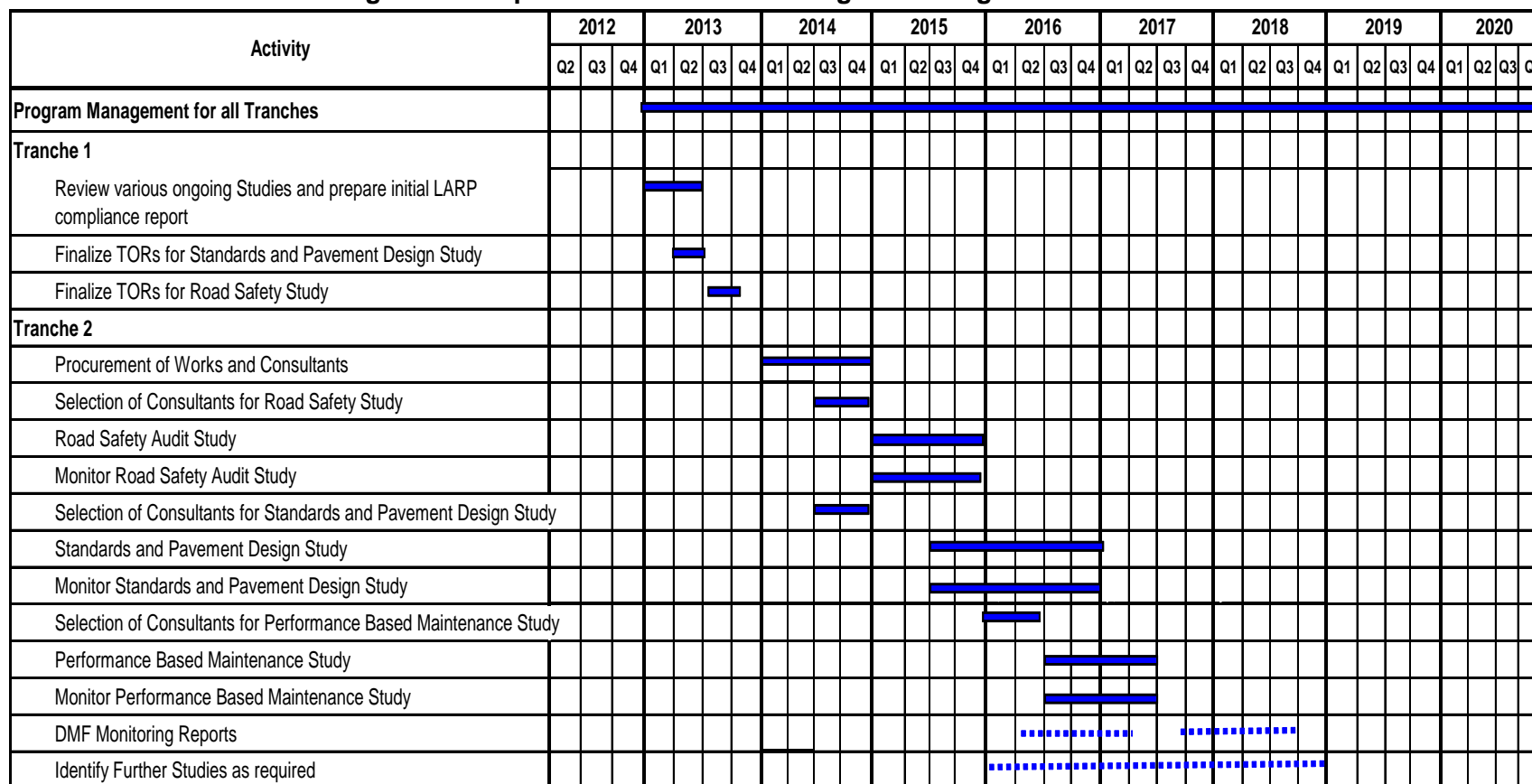


Figure 3.2: Implementation Plan for Program Management Consultant



IV. COSTS AND FINANCING

18. The total cost of the investment program is estimated at \$625 million equivalent. The cost of Project 1 amounts to \$312 million equivalent. Table 4.1 summarizes the costs estimates and demonstrates how the proposed second investment program contributes significantly in accomplishment of Azerbaijan's overall road network development plan.

Table 4.1: Investment Program
(\$ million)

Item	Amount ^a		
	MFF	Tranche 1	Tranche 2
A. Base Cost			
1. Land Acquisition	10.0	5.0	5.0
2. Civil Works	360.0	180.0	180.0
3. Consultancy Services ^b	30.0	10.0	20.0
4. Taxes and Duties	90.0	45.0	45.0
Subtotal (A)	490.0	240.0	250.0
B. Contingencies^c	110.0	60.0	50.0
C. Interest and Other Charges During Construction	25.0	12.0	13.0
Total	625.0	312.0	313.0

^a In 2012 prices.

^b Construction supervision, program management and various other studies.

^c Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

19. The financing plan is summarized in Table 4.2. The Government contribution will be used to meet land acquisition costs, taxes, duties and interest and other charges during construction.

Table 4.2: Financing Plan

Source	Amount (\$ million)			Share of Total (%)
	MFF	Tranche 1	Tranche 2*	
Asian Development Bank	500.0	250.0	250.0	800.0
Government	125.0	62.0	63.0	20.0
Total	625.0	312.0	313.0	100.0

* Including possible co-financing.

Source: Asian Development Bank estimates.

Table 4.3: ADB Financing by Expenditure Category
(\$ million)

Item	Tranche 1	Tranche 2	Total Cost
A. Base Cost^a			
1. Civil Works	180.0	180.0	360.0
2. Consultancy Services ^b	10.0	20.0	30.0
Subtotal (A)	190.0	200.0	390.0
B. Contingencies^c	60.0	50.0	110.0
C. Interest and Other Charges	0.0	0.0	0.0
Total	250.0	250.0	500.0

^a In 2012 prices.

^b Construction supervision, program management and various other studies.

^c Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

A. Detailed Cost Estimates by Expenditure Category

Table 4.4: Detailed Cost Estimates by Expenditure Category for the Investment Program
(\$ million)^a

Item	Foreign Exchange	Local Currency	Total Cost	% of Total Base Cost
A. Base Costs				
1 Civil Works	360.00	0.00	360.00	73.46
2 Consultants				
a. Construction Supervision	12.00	0.00	12.00	2.49
b. Program Management and other studies	18.00	0.00	18.00	3.67
3 Land Acquisition	0.00	10.00	10.00	2.04
Subtotal (A)	390.00	10.00	400.00	81.63
B. Taxes and Duties	0.00	90.00	90.00	18.37
Total Base Cost	390.00	105.00	490.00	100.00
C. Contingencies^b				
1 Physical and Price	110.00	0.00	110.00	22.45
Subtotal (C)	110.00	0.00	110.00	22.45
D. Financing Charges During Implementation				
1 Interest and Other Charges	0.00	25.00	25.00	5.10
Subtotal (D)	0.00	25.00	25.00	5.10
Total Project Cost (A+B+C+D)	500.00	125.00	625.00	127.55

^a In 2012 prices.

^b Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

Table 4.5: Detailed Cost Estimates by Expenditure Category for Tranche 1
(\$ million)^a

Item	Foreign Exchange	Local Currency	Total Cost	% of Total Base Cost
A. Base Costs				
1 Civil Works	180.00	0.00	180.00	75.00
2 Consultants				
a. Construction Supervision	6.00	0.00	6.00	2.50
b. Program Management	4.00	0.00	4.00	1.67
3 Land Acquisition	0.00	5.00	5.00	2.08
Subtotal (A)	190.00	5.00	195.00	81.25
B. Taxes and Duties	0.00	45.00	45.00	18.75
Total Base Cost	190.00	50.00	240.00	100.00
C. Contingencies^b				
1 Physical and Price	60.00	0.00	60.00	25.00
Subtotal (C)	60.00	0.00	60.00	25.00
D. Financing Charges During Implementation				
1 Interest and Other Charges	0.00	12.00	12.00	5.00
Subtotal (D)	0.00	12.00	12.00	5.00
Total Project Cost (A+B+C+D)	250.00	62.00	312.00	130.00

^a In 2012 prices.

^b Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

Table 4.6: Detailed Cost Estimates by Expenditure Category for Tranche 2

To be inserted at the time of approval of Tranche 2 project

B. Allocation and Withdrawal of Loan Proceeds**Table 4.7: Allocation and Withdrawal of Loan Proceeds for Tranche 1**

To be taken from the Loan Agreement

Table 4.8: Allocation and Withdrawal of Loan Proceeds for Tranche 2

To be inserted at the time of approval of Tranche 2 project

C. Detailed Cost Estimates by Financier

Table 4.9: Detailed Cost Estimates by Financier for the Investment Program
(\$ million)^a

Item	ADB		Azerbaijan (AZE)		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	
A. Investment Costs					
1 Civil Works	360.00	100.00	0.00	0.00	360.00
2 Consultants					
a. Construction Supervision	12.00	100.00	0.00	0.00	12.00
b. Program Management and other studies	18.00	100.00	0.00	0.00	18.00
3 Land Acquisition	0.00	0.00	10.00	100.00	10.00
Subtotal (A)	390.00	97.50	10.00	2.50	400.00
B. Taxes and Duties					
Taxes and Duties	0.00	0.00	90.00	100.00	90.00
Total Base Cost	390.00	79.59	100.00	20.41	490.00
C. Contingencies^b	110.00	100.00	0.00	0.00	110.00
D. Financing Charges During Implementation	0.00	0.00	25.00	100.00	25.00
Total Project Cost (A+B+C+D)	500.00	80.00	125.00	20.00	625.00
% Total Project Cost		80.00		20.00	100.00

ADB = Asian Development Bank, AZE = Azerbaijan.

^a In 2012 prices.

^b Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

Table 4.10: Detailed Cost Estimates by Financier for Tranche 1
(\$ million)^a

Item	ADB		Azerbaijan (AZE)		Total Cost
	Amount	% of Cost Category	Amount	% of Cost Category	
A. Investment Costs					
1 Civil Works	180.00	100.00	0.00	0.00	180.00
2 Consultants					
a. Construction Supervision	6.00	100.00	0.00	0.00	6.00
b. Program Management	4.00	100.00	0.00	0.00	4.00
3 Land Acquisition	0.00	0.00	5.00	100.00	5.00
Subtotal (A)	190.00	97.44	5.00	2.56	195.00
B. Taxes and Duties					
Taxes and Duties	0.00	0.00	45.00	100.00	45.00
Total Base Cost	190.00	79.17	50.00	20.83	240.00
C. Contingencies^b	60.00	100.00	0.00	0.00	60.00
D. Financing Charges During Implementation	0.00	0.00	12.00	100.0	12.00
Total Project Cost (A+B+C+D)	250.00	80.00	62.00	20.00	312.00
% Total Project Cost		80.00		20.00	100.00

ADB = Asian Development Bank, AZE = Azerbaijan.

^a In 2012 prices.

^b Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

Table 4.11: Detailed Cost Estimates by Financier for Tranche 2
To be inserted at the time of approval of Tranche 2 project

D. Detailed Cost Estimates by Components

Table 4.12: Detailed Cost Estimates by Components – Tranche 1
(\$ million)^a

Item	Total Cost	Component 1: Infrastructure Development		Component 2: Transport Network Management Capacity Development	
		Amount	% of Cost Category	Amount	% of Cost Category
A. Investment Costs					
1 Civil Works	180.00	180.00	100.00	0.00	0.00
2 Consultants					
a. Construction Supervision	6.00	6.00	100.00	0.00	0.00
b. Program Management	4.00	0.00	0.00	4.00	100.00
3 Land Acquisition	5.00	5.00	100.00	0.00	0.00
Subtotal (A)	195.00	191.00	97.90	4.00	2.10
B. Taxes and Duties	45.00	44.00	97.80	1.00	2.20
Total Base Cost	240.00	235.00	97.90	5.00	2.10
C. Contingencies^b					
1 Physical and Price	60.00	60.00	100.00	0.00	0.00
Subtotal (C)	60.00	60.00	100.00	0.00	0.00
D. Financing Charges During Implementation					
1 Interest and Other Charges	12.00	11.00	0.00	1.00	0.00
Subtotal (D)	12.00	11.00	0.00	1.00	0.00
Total Project Cost (A+B+C+D)	312.00	306.00	98.00	6.00	2.00

^a In 2012 prices.

^b Physical and price contingencies computed at about 25% of the civil works and consultancy services.

Source: Asian Development Bank estimates.

Table 4.13: Detailed Cost Estimates by Components – Tranche 2

To be inserted at the time of approval of Tranche 2 project

E. Detailed Cost Estimates by Year

Table 4.14: Detailed Cost Estimates by Year – Tranche 1
(\$ million)^a

Item	Total Cost	2012	2013	2014	2015	2016
A. Investment Costs						
1 Civil Works	180.00	0.00	35.00	50.00	70.00	25.00
2 Consultants						
a. Construction Supervision	6.00	0.00	1.60	1.90	1.90	0.60
b. Program Management	4.00	0.00	1.30	1.20	1.10	0.40
3 Land Acquisition	5.00	5.00	0.00	0.00	0.00	0.00
Subtotal (B)	195.00	5.00	37.90	53.10	73.00	26.00
B. Taxes and Duties	45.00	0.00	7.40	12.80	17.10	7.70
Total Base Cost	240.00	5.00	45.30	65.90	90.10	33.70
C. Contingencies^b	60.00	0.00	11.00	18.50	22.00	8.50
D. Financing Charges During Implementation	12.00	0.00	3.00	3.00	3.00	3.00
Total Project Cost (A+B+C+D)	312.00	5.00	59.30	87.40	115.10	45.20

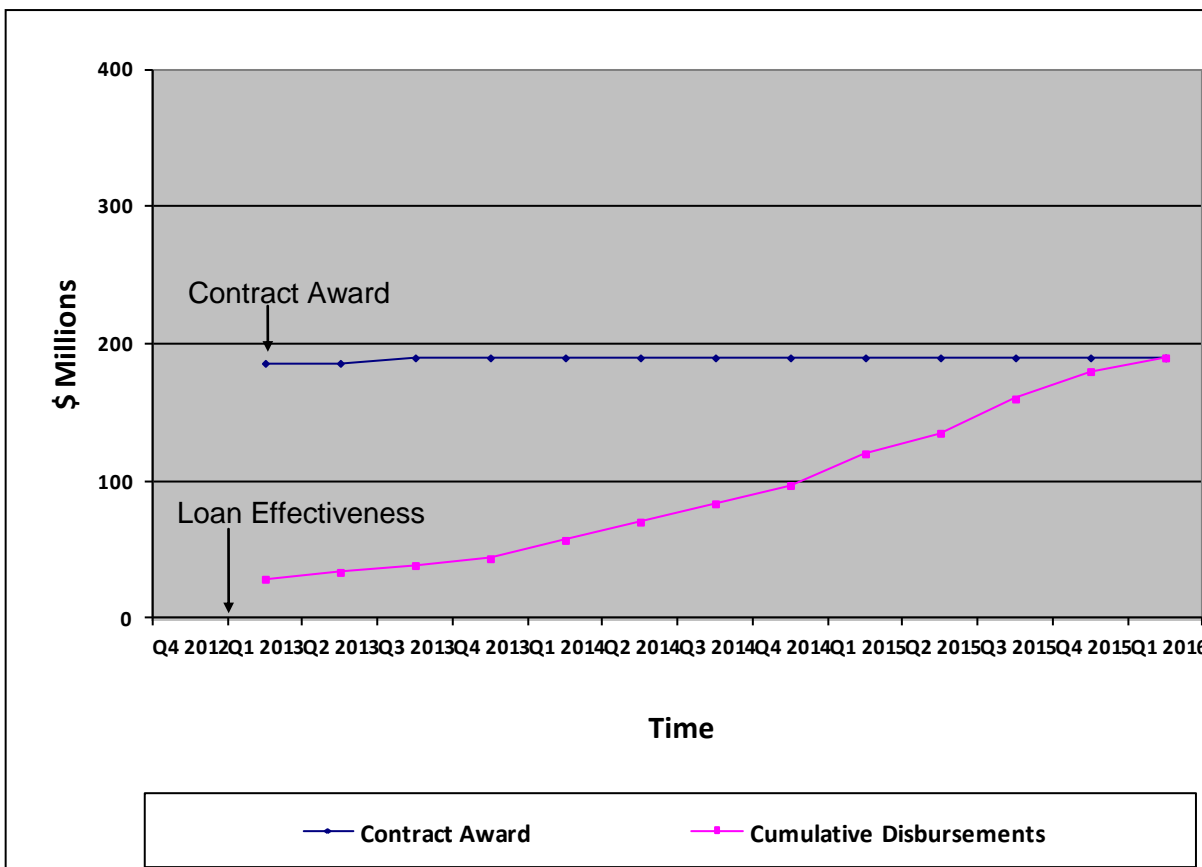
^a In 2012 prices.

^b Physical and price contingencies computed at about 25% of the civil works and consultancy services.

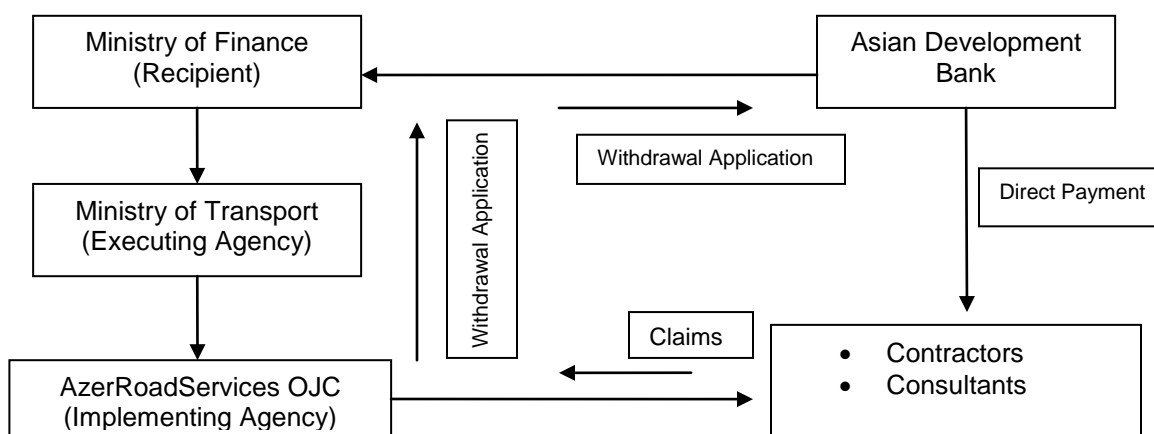
Source: Asian Development Bank estimates.

Table 4.15: Detailed Cost Estimates by Year – Tranche 2—To be inserted at the time of approval of Tranche 2 project

F. Contract and Disbursement S-curve for Tranche 1



G. Fund Flow Diagram



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

20. A financial management assessment (FMA) and a risk assessment of country level systems were conducted by ADB with focus on program management, financial accounting, auditing, procurement, and corruption mitigation measures. The FMA concludes that the Project Implementation Unit (PIU) in AzerRoadServices Open Joint-Stock Company (ARS) meets ADB's minimum financial management requirements for Implementing Agencies. The PIU has satisfactory financial management capability to record financial transactions and balances, provide regular and reliable financial statements and monitoring reports, and safeguard the financial assets. These risks and mitigation measures have been assessed and included in the risk assessment and management plan. Activities under the transport network management capacity development component will seek to further minimize and mitigation these risks through training, restructuring, and institutional strengthening.

21. The key FMA findings and lessons learnt from the ongoing MFF are as follows:

Table 5.1: Summary of the Financial Management Assessment

Subject	Conclusions
Executing Agency and Implementing Agency	The Ministry of Transport will be the Executing Agency and ARS, under the Ministry of Transport, will be the Implementing Agency. Responsibility rests with the chairman of ARS but day-to-day activities will be carried out by the PIU in ARS that manages projects supported by ADB, World Bank and European Bank for Reconstruction and Development. The PIU will also undertake such functions as (i) preparing periodic financing requests, (ii) engaging and supervising consultants and contractors, (iii) preparing reports, and (iv) obtaining approvals from ADB and the Government.
Funds flow management	Funds flow arrangements are reliable, predictable and secure. ARS has experience of implementing donor financed projects to work under funds flow arrangements acceptable to ADB. The same funds flow arrangements as for the first Multitranche Financing Facility (MFF) are expected to be used for the second MFF.
Staffing	ARS is adequately staffed with qualified and experienced financial specialists. As for the first MFF, ARS will implement the second MFF. The PIU is headed by its Director, who reports to the chairman of ARS. The PIU comprises ARS staff who will be supported by a program management consultant for project implementation and monitoring.
Accounting policies and procedures	ARS's accounting policy is based on the Azerbaijan National Accounting Standards and Financial Reporting Regulations for State Budget Finance Organizations. Azerbaijan National Accounting Standards are progressively being modernized in accordance with international accounting standards.
Internal audit	An audit division in ARS carries out internal audits.
External audit	ARS is audited by the Chamber of Accounts, Ministry of Finance and Ministry of Taxes. The PIU has to date been audited annually by independent external international auditors in accordance with international accounting standards, in compliance with ADB requirements.
Reporting and monitoring	ARS and PIU reports comply with reporting requirements of Ministry of Finance, Ministry of Economic Development and Ministry of Taxes. Past PIU reports (Quarterly Progress Reports) to ADB have been submitted in a timely manner and in accordance with ADB requirements.
Information systems	ARS and PIU uses a simple computer program for accounting. Reports are prepared with help of this program supplemented by spreadsheets as necessary. This suits project requirements, although some reports cannot be automatically generated. Many ADB-financed projects in other countries use this program.

22. During the implementation phase, ARS and PIU may face inherent risks arising at the (i) country level and (ii) organization/project level. Examples of country-specific risks are delays in disbursement of counterpart funds, delays due to public procurement rules and slow Customs clearance of imported construction equipment. FMA risks shall need to be considered and updated throughout the life of the investment program. Risk mitigation measures shall also be updated accordingly.

Table 5.2: Risk Assessment and Mitigation Measures

Risk	Risk Assessment	Risk Mitigation Measures
<i>Inherent Risk</i>		
Country-specific Risks	N	Obtain from MoF, MOT and ARS written guarantees of timely disbursement of counterpart funds. Include institutional and procurement arrangements in the Loan Agreement.
Entity-specific Risks	M	Conduct extensive training on ADB procedures even though the implementing PIU is experienced in ADB rules and procedures.
Project-specific Risks	M	Insist on land acquisition and resettlement being complete before the contract starts. Be vigilant for project obstacles that could delay progress and add to costs.
Overall inherent Risk	M	
<i>Control Risk</i>		
Implementing Entity	N	Organizational capacity of PIU is assessed to be competent to support implementation.
Funds Flow	N	Ensure timely availability of counterpart funds by following the existing funds flow arrangements that have worked satisfactorily in the past.
Staffing	M	The PIU has specialist accounting and financial management staff with a minimum of a bachelors degree in commerce and accounting and three years' work experience. ADB should insist that this will be maintained and should continue its support with briefing and training on ADB financial reporting requirements and assistance to integration them with national financial reporting requirements as per NAS and other statutes.
Accounting Policies and Procedures	M	PIU has an accounting policy based on national accounting standards and the requirements of ADB.
Internal Audit	M	The ARS internal audit unit conducts internal audits of PIU. Ensure that this unit exercises internal audit of PIU for the new MFF by agreement between ADB and ARS.
External Audit	M	For the first MFF the PIU was externally audited by Deloitte. Continue this practice by requiring external audit of accounts in accordance with International Accounting Standards by an international auditor acceptable to ADB.
Reporting and Monitoring	M	Require the PIU to report in accordance with ADB requirements with inherent adequate control mechanisms.
Information Systems	M	PIU to continue to use the ARS accounting computer program for project needs.
Overall Control Risk	M	

H = High, S = Substantial, M = Moderate, N = Negligible or Low.

Source: Asian Development Bank staff and project preparatory technical assistance.

B. Disbursement

23. The Loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time),⁵ and detailed arrangements agreed upon between the Government and ADB. All the payments will be made in accordance with the ADB's direct payment procedures.

⁵ Available at: http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf.

24. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS),⁶ ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS. ADB will ensure that the investment program is in compliance with applicable national laws and regulations and will apply the prohibited investment activities list.

25. ARS will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting supporting documents, and (iv) preparing and sending withdrawal applications to ADB. Before the submission of the first withdrawal application, the government shall submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is US\$100,000, unless otherwise approved by ADB. ARS will consolidate claims to meet this limit for direct payments under the loan. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

C. Accounting

26. The Ministry of Transport and ARS will maintain separate project accounts and records by funding source for all expenditures incurred on the Project. Project accounts will follow international accounting principles and practices or the national equivalent acceptable to ADB.

D. Auditing

27. The Ministry of Transport and ARS will cause the detailed consolidated project accounts to be audited in accordance with international standards for auditing or national equivalent acceptable to ADB by an independent auditor whose qualifications, experience and terms of reference are acceptable to ADB. As part of each such audit, the auditors will prepare a report (which includes the auditors' opinion on the use of the loan proceeds and compliance with the financial covenants of the loan agreement) and a management letter (which sets out the deficiencies in the internal control of the project that were identified in the course of the audit, if any). Copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request, shall be furnished to ADB within 6 months of the end of the fiscal year by the executing agency. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website. The Government, the Ministry of Transport and ARS have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. For revenue generating projects only, ADB requires audited financial statements (AFS) for each executing and/or implementation agency associated with the project.

⁶ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting

28. Under each tranche, ADB may, subject to its policies and procedures, allow on request advance contracting. The Government acknowledges that any approval of advance contracting will not constitute a commitment by ADB to finance the related project.

29. All advance contracting will be undertaken in conformity with ADB's *Procurement Guidelines* (February 2010, as amended from time to time) (ADB's *Procurement Guidelines*)⁷ and ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time) (ADB's *Guidelines on the Use of Consultants*).⁸ The issuance of invitations to bid under advance contracting will be subject to ADB approval. The borrower, the Ministry of Transport and ARS have been advised that approval of advance contracting does not commit ADB to finance the Project.

30. The Government has requested advance contracting for civil works and consultancy services under Tranche 1. The Government shall invite bids for civil works, evaluate the proposals and finalize the award of contract. Similarly, the Government shall short-list the consulting firms, issue request for proposal (RFP) documents to the short-listed firms, evaluate the proposals and finalize award of contracts for works and consulting services. However, all the contracts shall be signed by the Government only after the loan has become effective.

B. Procurement of Goods, Works, and Consulting Services

31. Procurement of goods and works financed under the investment program will follow ADB's *Procurement Guidelines* (2010, as amended from time to time) and consultant recruitment financed under the investment program will follow ADB's *Guidelines on the Use of Consultants* (2010, as amended from time to time).

32. The details of the works and consultancy services envisaged under the investment program are as under:

Table 6.1: Details of Procurement of Works and Consultancy Services

Works	ICB	2 works contracts	\$360 million (each contract of \$180 million) excluding taxes.
Consulting services	QCBS*	Consultancy Services for Construction Supervision under Tranche 1 (one contract)	\$6 million (International: 100 and National:150 person-months)
	QCBS*	Consultancy Services for Construction Supervision under Tranche 2 (one contract)	\$7 million (International: 100 and National:150 person-months)
	QCBS*	Program Management Consultancy services (up to two contracts)	\$10 million (International: 168 and National:78 person-months)
	QCBS*	Various studies for transport sector governance through road network management for sustainability under Tranche 2 (up to three contracts)	Total \$6 million (International: 120 and National:75 person-months)
	ICS	Transport sector governance under Tranche 2 (up to three contracts)	\$300 thousand (International: 9 person-months)

* Standard quality: cost ratio of 90:10.

⁷ Available at: <http://www.adb.org/Documents/Guidelines/Procurement/Guidelines-Procurement.pdf>.

⁸ Available at: <http://www.adb.org/Documents/Guidelines/Consulting/Guidelines-Consultants.pdf>.

33. An 18-month procurement plan for Tranche 1 indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C. The procurement plan will be updated on a regular basis and approval of ADB shall be sought on each updated procurement plan. Procurement plans for Tranche 2 will be developed during its preparation.

C. Procurement Plan

34. The procurement plan for Tranche 1 is in Appendix 1.

D. Consultant's Terms of Reference

35. The outline terms of reference (TOR) for consultancy services for (i) construction supervision, and (ii) program management are in Appendix 2 and 3 respectively. The following provides an overview of the TOR for the consulting services.

36. **Consulting services for Construction Supervision.** Consultant will be engaged for each tranche of the investment program to perform as the Engineer of the Project. The consultant will administer the construction contracts and ensure that the contractual clauses for both quality and specifications of work are complied with, and the works are constructed in accordance with the provisions of the construction contracts. The consultant's representative will be a full-time in the project area in accordance with the provisions of the construction contracts.

37. **Consulting services for Program Management.** Consultant will be engaged under Tranche 1 for overall program management. The services of the consultants will be extended under Tranche 2 of the investment program. The consultant will implement the investment program in coordination with ARS and building ARS's capacity, including the capacity to integrate climate proofing measures in the road design, procurement, construction and maintenance and financial management. The consultant shall be responsible for overall program management and shall submit program/project management reports to ARS, MOT, and ADB.

E. Review of Contract Modifications

38. ADB will review contract modifications in accordance with the procedures set forth in the loan agreement between the Azerbaijan and ADB.

39. The TORs for Tranche 2 will be prepared at the time of processing of the Tranche 2 and will be included in the FAM.

VII. SAFEGUARDS

40. The Government will ensure that all the requirements prescribed in Schedule 5 of the FFA, and the following frameworks that have been prepared with respect to the Facility are complied with during the processing and implementation of the investment program:

- (i) environmental assessment and review framework (“EARF”); and
- (ii) land acquisition and resettlement framework (“LARF”)

41. The safeguard frameworks cover the Facility specific information and requirements in accordance with ADB’s Safeguard Policy Statement (2009) (SPS): (i) the general anticipated impacts of the projects likely to be financed under the Facility on the environment, and involuntary resettlement; (ii) the safeguard criteria that are to be used in selecting projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; (iv) the institutional arrangements (including budget and capacity requirements) and Government’s and ADB’s responsibilities and authorities for the preparation, review and clearance of safeguard documents. The Government will also ensure that the Land Acquisition and Resettlement Plan prepared for Tranche 1 which covers the remaining LAR-related activities (including livelihood restoration activities during project implementation) will be implemented, monitored and reported to ADB.

42. For subsequent tranches, at the preparation of each PFR, the applicability and relevance of each safeguard framework for the frameworks above will be reviewed and updated to ensure relevance and consistency with all applicable laws and regulations in Azerbaijan and ADB’s SPS (2009), as amended from time to time. In the event that there is a discrepancy between the laws and regulations of Azerbaijan and ADB safeguard policies, the ADB safeguard policies will prevail. In addition, the Government will carry out due diligence works on ongoing projects to assess the status of compliance with the safeguards-related plans and frameworks.

43. For each tranche, the Government will submit safeguard monitoring reports semi annually covering all the aspects and issues from perspectives of environment, and land acquisition and resettlement.

44. ARS will ensure that the Investment Program is implemented with active participation of all national stakeholders, using participatory practices, and consultation will continue throughout implementation of the Investment Program. Disclosure of relevant information to these stakeholders will continue throughout implementation of the Investment Program.

A. Environment

45. The Government will ensure that the design, construction, and operation and maintenance of the facilities under investment program are carried out in accordance with ADB’s Safeguard Policy Statement (2009), applicable laws and regulations in Azerbaijan, the EARF, and respective EIAs.⁹ ARS will ensure that potential adverse environmental impacts arising from the investment program are minimized by implementing all mitigation and monitoring measures as presented in the environment management plan (EMP) included in the EIAs. Specially, the Government through the Ministry of Transport and ARS will ensure that:

⁹ The EARF is in Appendix 4.

- (i) EMPs are updated, as and when required;
- (ii) ARS has sufficient resources to implement and record the implementation of the EMPs prepared for the investment program;
- (iii) Starting from project commencement, ARS will submit semi-annual environmental reports to ADB, within three months of the close of each half of the calendar year during implementation of each individual project under the investment program. The report will include, among other things, a review of progress made on environmental measures detailed in the EIAs and EMPs, and monitoring thereof; and problems encountered and remedial measures taken;
- (iv) Detailed engineering designs, civil works and other contracts for the investment program facilities incorporate applicable environmental measures identified in the EIAs and EMPs;
- (v) Civil works contractors are supervised to ensure compliance with the requirements of the EIAs and EMP;
- (vi) EIAs are disclosed to the public 120 days before the approval of the associated tranche by ADB Management;
- (vii) EIAs and EMPs are prepared for subsequent tranches according to the procedures and guidelines set forth in the EARF, ADB's SPS (2009), and Azerbaijan's laws and regulations.

46. In areas of wetlands, the following measures will be complied with:

- (i) No waste storage areas will be kept within the wetland areas;
- (ii) Storage of oils and chemicals will be prohibited in the wetland areas and if unavoidable they will be held within specifically constructed bunded areas;
- (iii) Hydrology/hydraulic experts within the construction supervision team will review the detailed designs to ensure that standard design features adapted to local conditions are included for the interception, containment and treatment of potential spills of oil and hazardous materials from the road;
- (iv) DSC will review the detailed design and ensure relevant provisions are included in the construction drawings with regards to the design of culverts and inclusion of ledges above normal water level for mammals;
- (v) Placement of petrol stations within or adjacent to the wetlands will be prohibited;
- (vi) No construction will be carried out in the wetlands during the breeding season of the birds;
- (vii) Haul roads will not be located in the wetlands, and if unavoidable, these will be decommissioned and re-vegetated after the construction;
- (viii) Emergency response plan will be put in place for clean-up of potential spills of hazardous chemicals in the wetlands;
- (ix) Only locally native species will be planted in or adjacent to the wetland areas for landscaping purposes;
- (x) The implementing agency will recruit additional specialized expertise to undertake the specific studies needed to develop the culvert design and location, drainage and storm water structures, design and location of wildlife and grazing animal underpasses, and design of ecological monitoring programs;
- (xi) The implementing agency will recruit additional specialized expertise to pilot and implement the turtle action plan;
- (xii) A comprehensive monitoring program will be implemented to ensure the effectiveness of the various mitigation measures and for the long-term monitoring of the ecology and hydrology associated with the wetlands;
- (xiii) ADB will review and approve the site-specific environmental management plans.

B. Land Acquisition and Resettlement

47. The Government will ensure that each tranche financed under the Facility are developed, implemented and maintained in accordance with all applicable laws and regulations of Azerbaijan, ADB's Safeguard Policy Statement (2009) and the LARF.¹⁰

48. The Government will cause ARS to ensure that:

- (i) for projects with involuntary resettlement, a land acquisition and resettlement plan (LARP) acceptable to ADB is prepared for each tranche in accordance with all applicable laws and regulations of Azerbaijan, ADB's Safeguard Policy Statement (2009) and the LARF, as a submission with the PFR;
- (ii) all land and rights-of-way required by the projects are made available free and clear from any and all rights and claims of third parties and any other encumbrances in a timely manner, subject to compliance with all applicable laws and regulation of Azerbaijan, ADB's Safeguard Policy Statement (2009), the LARF and the LARPs;
- (iii) no civil works contract for any project involving resettlement will be awarded until the full compensation has been paid and the entire land has been acquired in accordance with the LARP approved by ADB;
- (iv) no physical or economic displacement takes place in connection with the projects until compensation and other entitlements have been provided to displaced people; and a comprehensive income and livelihood restoration program, including job placement for severely affected and vulnerable households, has been established in accordance with the LARF and LARP.
- (v) contractors comply with the measures and requirements relevant to the contractor set forth in the EIA, the EMP, and the LARP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set out in a Safeguards Monitoring Report;
- (vi) contractors provide ARS with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the EIA, the EMP, or the LARP;
- (vii) contractors adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and,
- (viii) contractors fully reinstate pathways, other local infrastructure, and temporarily used land to at least their pre-project condition upon the completion of construction; and
- (ix) all required safeguards monitoring reports are submitted to ADB on time.

C. Indigenous Peoples

49. Azerbaijan shall ensure that projects financed under the Facility do not have any indigenous people's impacts within the meaning of the Safeguard Policy Statement. In the event that project(s) do have any such impacts, Azerbaijan shall take all steps required to ensure that the Project complies with the applicable laws and regulations of Azerbaijan and the Safeguard Policy Statement.

¹⁰ The LARF is in Appendix 5.

50. For subsequent projects under the investment program, if any adverse impact on indigenous people is observed at their preparation stage, an indigenous peoples planning framework (IPPF) and indigenous peoples plan (IPP) will be prepared by ARS and will be processed in line with SPS (2009).

VIII. GENDER AND SOCIAL DIMENSIONS

51. ARS will incorporate provisions in civil work contracts that contractors shall (i) comply with Azerbaijan's applicable labour laws and related international treaty obligations and not employ child labour, (ii) provide safe work conditions and separate sanitation facilities for male and female workers, (iii) provide equal wage to male and female workers for work of equal value, (iv) provide employment opportunities for women, including skilled labour (v) carry out programs of preventing HIV/AIDS, illicit drugs and human trafficking at workers' campsites. ARS, with assistance from the PMC, will coordinate with the rayon executive powers and other relevant agencies in facilitating the development of small business opportunities along the motorway. Related to this, ARS will coordinate with SIDUS in the implementation of a pilot project financed under RETA 7563 which aims at delivering training to women entrepreneurs along the road to scale up their businesses.

52. At the project implementation, consultations with the participants above will continue in order to disclose the project's progress. Prior to the commencement of civil works, ARS will conduct consultation meetings with the support of the construction supervision consultants and contractors.

53. The Investment Program has some gender elements in terms of improving women's access to markets and services, opportunities to skilled women and women's participation in monitoring the project's impact. The Program is linked to a pilot project,¹¹ which aims at training women entrepreneurs to scale up their businesses. This will enable them to fully benefit from improved access to markets. Increased access to social services, economic opportunity, and consumer choice is expected to significantly increase the welfare of women, household incomes, achievement of the Millennium Development Goals, and overall poverty reduction.

54. All projects financed under the MFF will include appropriate measures to raise public awareness on the potential risk of HIV/AIDS and other sexually transmitted infections, as well as drug and human trafficking and require contractors to take measures to protect construction workers from the risks of HIV/AIDS and other sexually transmitted infections, and giving construction workers time to be tested or receive treatment. The supervision consultant and PMC will coordinate with the contractors and monitor the implementation.

¹¹ ADB. 2010. *Technical Assistance for Promoting Gender-Inclusive Growth in Central and West Asia Developing Member Countries*. Manila.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

55. ARS will undertake periodic project performance review under each individual project and for the Investment Program, in accordance with the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the related project and overall Investment Program. ARS will prepare and submit to ADB quarterly progress reports for the individual projects. The reports will include a description of physical progress, problems, and difficulties encountered and a summary of financial accounts that will consist of grant or 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 environmental management plan. A project completion report will be submitted within three months following completion of each project. A Facility completion report will be submitted within six months after completion of the Investment Program.

A. Project Design and Monitoring Framework for the Investment Program

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Greater economic growth in Azerbaijan and expanded trade with neighboring countries	By 2025 Increase in trade with neighboring countries to \$5.0 billion (2011 baseline: \$3.7 billion) Increased gross domestic product from \$64 billion (2011) to \$120 billion	National economic and trade statistics	Assumptions Continued political and macroeconomic stability in Azerbaijan Continued government commitment to regional cooperation Risk Delay in implementation of the State Program on Poverty Reduction and Economic Development as planned
Outcome An efficient, adequate, safe, and sustainable southern motorway corridor from Baku in Azerbaijan	By 2020 30% increase in freight traffic (2010 baseline: 11,325 million ton-km) 20% increase in passenger traffic (2010 baseline: 16,633 million passenger-km) Increased funding for road maintenance to at least \$350 million (2011 baseline: \$200 million) 10% reduction in the number of road traffic accidents (2011 baseline: 2,890 number of accidents) About 4 million beneficiaries	MFF and project progress and completion reports of ARS Statistical Yearbook of Azerbaijan ARS annual surveys Road subsector budget and expenditure records	Assumptions Government's commitment to implement the road map and the Road Network Development Program Adequate government financing Support of local government continues from the outputs stage Risk Rapid deterioration of the road network caused by weak axle-load controls, weather and climatic conditions

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Outputs 1. About 63 km of newly constructed motorway between Masalli and Shorsulu. 2. Improved program management and implementation capacities of ARS 3. Improved transport sector governance	By 2018 63 km of the new motorway constructed with international roughness index less than 5 meters per km All civil works contracts awarded and contractors mobilized Road safety audits conducted and improvement designs ready for at least 50% of ADB-financed roads. Road standards and specifications, including pavement layer design standards and specifications finalized. By 2020, performance-based maintenance contracts for at least 100 km awarded.	MFF and project progress and completion reports of ARS ARS annual surveys ARS annual surveys ARS project progress reports	Assumptions Efficiency and effectiveness in handling procurement and implementation as per agreed procurement plans and ADB procedures and requirements. Support from local governments and communities. Risks Cost overruns result in less work accomplished than designed. Delays caused by weather, site conditions. Assumption The government continues to implement the road subsector component as a priority. Risk MOT delays required changes in business practices for sustainable transportation.
Activities with Key Milestones Tranche 1: 1.1 Commencement of procurement of civil works and consulting services by September 2012. 1.2 Civil works and supervision consultant contracts awarded by March 2013 and completed by March 2016. 1.3 Program management consultants recruited by March 2013. Tranche 2: 2.1 Civil works contracts awarded by December 2014. 2.2 Civil works completed by December 2018. 2.3 Consultants for transport sector governance recruited by June 2016.			Inputs ADB: \$500 million (OCR) Government: \$125 million Total: \$625 million

ADB = Asian Development Bank, ARS = AzerRoadServices, km = kilometer, MFF = multitranche financing facility, MOT = Ministry of Transport, OCR = ordinary capital resources.
 Source: Asian Development Bank.

DESIGN AND MONITORING FRAMEWORK FOR PROJECT 1

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Sustainable economic growth in Azerbaijan and expanded trade with neighboring countries	By 2020 Increase in trade with neighboring countries to \$4.5 billion (Baseline: \$3.7 billion in 2011) Increased gross domestic product from \$63.59 billion (2011) to \$80 billion	National economic and trade statistics	Assumptions Continued political and macroeconomic stability in Azerbaijan Continued government commitment to regional cooperation Risk Delay in implementation of the State Program on Poverty Reduction and Economic Development as planned
Outcome An adequate, efficient, safe, and sustainable road network in Azerbaijan, connecting the country domestically and internationally	By 2018 10% increase in freight traffic (Baseline: 11,325 million ton-km in 2010) 5% increase in passenger traffic (Baseline: 16,633 million passenger-km in 2010) Increased funding for road maintenance to at least \$250 million (Baseline: \$200 million in 2011) 5% reduction in the number of road traffic accidents (Baseline: 2,890 number of accidents in 2011) About 2 million people will be benefitted	MFF and project progress and completion reports of ARS Statistical Yearbook of Azerbaijan ARS annual surveys Road subsector budget and expenditure records	Assumptions Government's commitment to implement the road map and the Road Network Development Program Adequate government financing The support of local government is continued from outputs stage Risk Rapid deterioration of the road network caused by weak axle-load controls
Outputs 1. Construction of an approximately 30 km section of the new motorway between Masalli and Jalilabad of the Masalli–Shorsulu road	By 2015 About 30 km of new four lane motorways constructed on time and within budget and meeting technical specifications with international roughness index of less than 5 meters per km	ARS annual surveys Project Progress and Completion Reports of ARS	Assumptions Efficiency and effectiveness in handling procurement and implementation as per the procurement plan agreed and ADB's procedures and requirements Continued support local governments and local communities Risk Cost overruns resulting in increase in construction costs

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
2. Project implementation support to ARS for construction supervision and program management	<p>All contracts awarded and mobilized as planned, before 2015.</p> <p>Terms of reference (TOR) and request for proposal (RFP) for engagement of consultants for road safety audits and for development of road standards and specifications, including for pavement layer standards and specifications are finalized and RFPs are issued by 2015.</p>		<p>Assumptions Government is committed to further reform the road sector</p> <p>Required funds are available to carry out the recommended measures.</p>
Activities with Milestones 1.1 Procurement and recruitment starts by July 2012 and complete by December 2012 1.2 Civil works and supervision consultant contracts awarded by December 2012 and completed by December 2015. 1.3 Program management consultants recruited by March 2013.			Inputs ADB: \$250 million (OCR Loans) Government: \$62 million

ADB = Asian Development Bank, ARS = AzerRoadServices, km = kilometer, MFF = multitranches financing facility, OCR = Ordinary Capital Resources.
Source: Asian Development Bank estimates.

B. Monitoring

56. **Project Performance Monitoring System.** ARS will establish a project performance monitoring system (PPMS)¹² for the Facility within six months of the Effective Date and collect baseline data for performance monitoring. The key indicators and assumptions outlined at the impact and outcome levels in the project design and monitoring framework will be the primary data required for analysis. ARS is responsible for daily monitoring, reporting, and evaluating the progress for implementing the project, and maybe tasked to develop the PPMS.

57. ARS, with the assistance of the consultants supervising the works in each tranche will collect baseline data and other information during implementation. Thereafter, it will analyze data once every 12 months, and include the results of the analyses and corrective measures (if any) taken to reverse negative trends and impacts in ARS's quarterly report to ADB. ADB review missions will discuss these reports and actions taken by ARS to ensure that all the targets and milestones are met.

58. **Compliance monitoring:** The loan covenants on policy, legal, financial, economic, environmental, social, labor standards and others will be monitored regularly through various reports (monthly progress reports, quarterly progress reports, and annual reports), and discussion during review missions.

59. **Safeguards monitoring:** The monitoring and reporting of the activities identified in the environment and resettlement action plans is discussed in Section VII.

60. **Gender and social dimensions monitoring:** The anticipated impacts of the investment program on people's livelihoods around the construction sites are estimated as not serious. However, ARS will be responsible for monitoring closely the contractors' compliance with terms to be on the civil works contract of conducting education activities for preventing HIV/AIDS, human traffic and illicit drugs and of creating gender-mainstreamed employment environments at the construction sites. Such activities will be reported by ARS to ADB in regular progress reports.¹³

C. Evaluation

61. ADB will field at least two review missions annually to discuss implementation progress and assess the project implementation, including procurement, civil works, financing status, and environmental and social safeguards based on quarterly progress reports.

62. A mid-term review mission will be carried out two years after each loan becomes effective. The mid-term review will focus on: (i) implementation progress of civil works and consulting services; (ii) performance of consultants and contractors; (iv) status of compliance with the understandings in the framework financing agreement (FFA) and the covenants in the loan agreement; and (v) the need for any midcourse changes in the scope or schedule of the tranche projects to ensure full achievement of its impact.

¹² ADB's project performance reporting system is available at:
<http://www.adb.org/Documents/Slideshows/PPMS/default.asp?p=evaltool>.

¹³ ADB's Handbook on Social Analysis: A Working Document, is available at:
<http://www.adb.org/Documents/Handbooks/social-analysis/default.asp>, Staff Guide to Consultation and Participation: <http://www.adb.org/participation/toolkit-staff-guide.asp>, and, CSO Sourcebook: A Staff Guide to Cooperation with Civil Society Organizations: <http://www.adb.org/Documents/Books/CSO-Staff-Guide/default.asp>

63. Within six months of physical completion of the each project, ARS will submit a project completion report to ADB.¹⁴

D. Reporting

64. ARS will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the Project. To ensure projects continue to be both viable and sustainable, ARS's project accounts and annual financial statements, together with the associated auditor's report, should be adequately reviewed.

65. The Ministry of Transport and ARS will maintain separate project records and accounts adequate to identify the (i) goods and services financed from the loan proceeds, (ii) financing resources received, (iii) expenses incurred on the components of each project, and (iv) use of counterpart funds. Project accounts will follow international accounting principles and practices. ARS will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing by an auditor acceptable to ADB. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year. The annual audit report will include a separate audit opinion on the use of the imprest accounts and the SOE procedure, if applicable.

E. Stakeholder Communication Strategy

66. ARS and ADB will ensure that the Investment Program is implemented with active participation of all national stakeholders, using participatory practices, and consultation will continue throughout implementation of the Investment Program. Disclosure of relevant information to these stakeholders will continue throughout implementation of the Investment Program.

Project Documents	Means of Communication	Responsible Party	Frequency	Audience(s)
Project Information Document (PID)	ADB's website	ADB	Quarterly updating	General Public
Framework Financing Agreement (FFA)	ADB's website	ADB	Always available online	General Public
Loan Agreement	ADB's website	ADB	Always available online	General Public
Report and Recommendations of the President (RRP)	ADB's website	ADB	Posted within 2 weeks of loan approval; Always available online	General Public
Facility Administration Memorandum (FAM)	ADB's website	ADB	After loan negotiation, to be updated	General Public
Environmental Impact Review Framework (EIRF), Environmental Impact Assessments (EIA) and	ADB's website	ARS and ADB	EARF, EIA and EMP posted on the website before appraisal; EMP to be updated regularly; All documents always	General Public; project-affected persons

¹⁴ Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

Project Documents	Means of Communication	Responsible Party	Frequency	Audience(s)
Environmental Management Plan (EMP)			available online	
Land Acquisition and Resettlement Framework (LARF), Land Acquisition and Resettlement Plans (LARP)	ADB's website	ARS and ADB	LARF and LARP posted on the website before appraisal; All documents always available online	General Public; project-affected persons
Safeguard Monitoring Reports	ADB's website	ADB	Routinely disclosed, no specific requirement	General Public; project-affected persons
Procurement requirements	ADB website for procurement notices; invitation for bids (IFB), local newspaper advertisement	ARS and ADB	Available online (current and archive)	General Public; potential civil works contracting firms
Consulting services requirements	ADB's website for recruitment notice (CSRN) for expression of interest	ARS	When required	General Public; consulting firms
	ADB website for list of short-listed firms	ADB	To be posted after short-listing; always available	General Public; consulting firms
	Request for proposal, public opening	ARS	When required	General Public; consulting firms
Annual Audited Project Accounts and Auditor Opinion	ADB Website	ADB, ARS	Within 30 days of date of receipt by ADB from ARS	General Public

X. ANTICORRUPTION POLICY

67. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the Project.¹⁵ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all Project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the investment program.¹⁶

68. To support these efforts, relevant provisions are included in the framework financing agreement, loan agreement and the bidding documents for the investment program.

69. ARS will establish eligibility criteria for persons serving on bid evaluation committees and require full disclosure of relevant interests and any potential conflict of interests. Additionally, ARS will engage financial auditors to conduct financial audits of each tranche and submit audit reports within 6 months of from the close of the financial year. The outline terms of reference for the auditor are in Appendix 4.

¹⁵ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

¹⁶ ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>.

XI. ACCOUNTABILITY MECHANISM

70. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism.¹⁷ The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures.

71. Before submitting a complaint to the Accountability Mechanism, affected people may initially course their complaints or queries through their local government and/or communities. In case the government and/or communities cannot settle, they can then forward to the Grievance Redress Committee explained at EARF and LARF respectively. Likewise, the public may contact the ADB Azerbaijan Resident Mission (AZRM). Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.

¹⁷ For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

XII. RECORD OF FAM CHANGES

FAM Version	Date Created	Date of Revision	Reasons for Change	Main contents of change

PROCUREMENT PLAN FOR TRANCHE 1¹

Basic Data

Project Name: Second Road Network Development Investment Program, Tranche 1	
Country: Azerbaijan	Executing Agency: Ministry of Transport
Loan Amount: \$250 million	Loan (Grant) Number:
Date of First Procurement Plan: 14 August 2012	Date of this Procurement Plan: 14 August 2012

A. Process Thresholds, Review and 18-Month Procurement Plan

1. Project Procurement Thresholds

1. Except as the Asian Development Bank (ADB) may otherwise agree, the following process thresholds shall apply to procurement of goods and works.

Procurement of Goods and Works

Method	Threshold
International Competitive Bidding (ICB) for Works ¹	Above \$3,000,000
National Competitive Bidding (NCB) for Works ¹	\$3,000,000 and below

2. ADB Prior or Post Review

2. Except as ADB may otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

Procurement Method	Prior or Post	Comments
Procurement of Goods and Works		
ICB Works	Prior	
NCB Works	Post	Prior review of first procurement
Recruitment of Consulting Firms		
Quality- and Cost-Based Selection (QCBS)	Prior	
Recruitment of Individual Consultants		
Individual Consultants	Prior	Individual Consultants may be selected on an ad-hoc basis to provide intermittent and independent service

3. Goods and Works Contracts Estimated to Cost More Than \$1 Million

3. The following table lists goods and works contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value (\$ Million)	Procurement Method	Prequalification of Bidders (y/n)	Advertisement Date (quarter/year)	Comments
Works:					
Construction of the Masalli–Jalilabad section (about 30 km) of Alyat–Masalli Motorway	180.0	ICB	No	Q3 2012	
Goods:					
Not Applicable					

¹ The Procurement Plan will be revised annually.

4. Consulting Services Contracts Estimated to Cost More Than \$100,000

4. The following table lists consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Contract Value (\$ Million)	Recruitment Method	Advertisement Date (quarter/year)	International or National Assignment	Comments
Construction supervision of Civil works contract	6.0	QCBS FTP	Q3 2012	International	Quality: Cost ratio: 90:10
Program Management Consultants	4.0	QCBS FTP	Q3 2012	International	Quality: Cost ratio: 90:10

5. Goods and Works Contracts Estimated to Cost Less than \$1 Million and Consulting Services Contracts Less than \$100,000

5. The following table groups smaller-value goods, works and consulting services contracts for which procurement activity is either ongoing or expected to commence within the next 18 months.

General Description	Value of Contracts (cumulative) (\$ Million)	Number of Contracts	Procurement / Recruitment Method	Comments
Not Applicable				

B. Indicative List of Packages Required Under the Project

6. The following table provides an indicative list of all procurement (goods, works and consulting services) over the life of the project. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the comments section.

General Description	Estimated Value (cumulative) (\$ Million)	Estimated Number of Contracts	Procurement Method	Domestic Preference Applicable	Comments
Goods	Not Applicable				
Works	180.0	1	ICB	No	

General Description	Estimated Value (cumulative) (\$ Million)	Estimated Number of Contracts	Recruitment Method	Type of Proposal	Comments
Consulting Services	10.0	2	International QCBS	FTP	Quality: Cost ratio: 90:10

C. National Competitive Bidding

1. General

7. The procedures to be followed for national competitive bidding shall be those set forth in the Public Procurement Law of December 27, 2001 with the clarifications and modifications

described in the following paragraphs required for compliance with the provisions of the ADB Procurement Guidelines ("Guidelines").

2. Eligibility

8. The eligibility of bidders shall be as defined under Section I of the Guidelines accordingly, no bidder or potential bidder should be declared ineligible for reasons other than those stated in Section I of the Guidelines. Bidders must be nationals of member countries of ADB, and offered goods, services, and works must be produced in and supplied from member countries of ADB.

3. Prequalification

9. Normally, post-qualification shall be used unless explicitly provided for in the loan agreement/procurement plan. Irrespective of whether post qualification or prequalification is used, eligible bidders (both national and foreign) shall be allowed to participate.

4. Registration and Licensing

- (i) Bidding shall not be restricted to pre-registered/licensed firms.
- (ii) Where registration or licensing is required, bidders (i) shall be allowed a reasonable time to complete the registration or licensing process; and (ii) shall not be denied registration/licensing for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.
- (iii) Foreign bidders shall not be precluded from bidding. If a registration or licensing process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register or to obtain a license.

5. Bidding Period

10. The minimum bidding period is twenty-eight (28) days prior to the deadline for the submission of bids.

6. Bidding Documents

11. Procuring entities should use standard bidding documents for the procurement of goods, works and services acceptable to ADB.

7. Preferences

12. No domestic preference shall be given for domestic bidders and for domestically manufactured goods.

8. Advertising

13. Invitations to bid shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally-known website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids.

14. Bidding of NCB contracts estimated at US\$500,000 equivalent or more for goods

and related services or US\$1,000,000 equivalent or more for civil works shall be advertised on ADB's website via the posting of the Procurement Plan.

9. Bid Security

15. Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

10. Bid Opening, Bid Evaluation, and Award of Contract

- (i) Bids shall be opened in public.
- (ii) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.
- (iii) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
- (iv) No bidder shall be rejected on the basis of a comparison with the employer's estimate and budget ceiling without ADB's prior concurrence.
- (v) A contract shall be awarded to the technically responsive bidder that offers the lowest evaluated price, and meets the qualifying requirements. Negotiations shall not be permitted.
- (vi) Splitting of award, of a single contract, among two or more bidders shall not be permitted.
- (vii) Price verification shall not be applied.

11. Rejection of All Bids and Rebidding

16. Bids shall not be rejected and new bids solicited without ADB's prior concurrence.

12. Disclosure of Decision on Contract Awards

17. At the same time that notification on award of contract is given to the successful bidder, the results of bid evaluation shall be published in a local newspaper or a well-known freely accessible website identifying the bid and lot numbers and providing information on (i) name of each Bidder who submitted a Bid, (ii) bid prices as read out at bid opening, (iii) name of bidders whose bids were rejected and the reasons for their rejection, and (iv) name of the winning Bidder, and the price it offered, as well as the duration and summary scope of the contract awarded. The executing agency/implementing agency/contracting authority shall respond in writing to unsuccessful bidders who seek explanations on the grounds on which their bids are not selected.

13. Participation by Government-owned enterprises

18. Government-owned enterprises in the Republic of Azerbaijan shall be eligible to participate as bidders only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

14. Right to Inspect/Audit

19. A provision shall be included in all NCB works and goods contracts financed by the Bank (ADB) requiring suppliers and contractors to permit ADB to inspect their accounts and records and other documents relating to the bid submission and the performance of the contract, and to have them audited by auditors appointed by ADB.

15. Fraud and corruption

20. The Borrower shall reject a proposal for award if it determines that the bidder recommended for award has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for the contract in question.

21. ADB will declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by ADB, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, or coercive practices in competing for, or in executing, ADB-financed contract.

D. Review of Contract Modifications

22. ADB will review contract modifications in accordance with the procedures set forth in the loan agreement between the Borrower and ADB.

OUTLINE TERMS OF REFERENCE FOR CONSTRUCTION SUPERVISION OF THE MASALLI–JALILABAD ROAD PROJECT, CONTRACT PACKAGE-1 (ABOUT 30 KM)

A. Introduction

1. The Government of the Republic of Azerbaijan (the Government) has requested the Asian Development Bank (ADB) to provide financial assistance for the Second Road Network Development Program (the Program) under the proposed Multi-tranche Financing Facility (MFF). Part of the funding under the MFF will be used for construction of the new 4-lane motorway/expressway along the southern road corridor between Alyat and Masalli. The civil works will involve construction of bituminous road, bridges, flyovers, major interchanges, agricultural culverts and underpasses and structures. The construction shall be carried out in accordance with the technical specifications/standards prescribed by the Ministry of Transport.
2. The AzerRoadServices (ARS) Open Joint Stock Company under the Ministry of Transport shall be the Implementing Agency (IA) for this project.
3. The IA now wishes to engage a firm of consultants for construction supervision. The consulting services will involve, but not limited to, review of detailed design and approval of good for construction drawings, certification of all the works under the civil works contract for quality and quantity, civil works contract administration, and benefit monitoring and evaluation.

B. Objectives

4. The primary objectives of the consulting services are as follows:
 - a. Function as the 'Engineer' in administering the civil works contract (the Contract) in accordance with the FIDIC conditions of Contract;
 - b. Review of detailed design and approval of good for construction drawings for construction of the road by the civil works contractor (the Contractor);
 - c. Ensure that the permanent and temporary works have been designed and are constructed in accordance with the technical specifications and standards forming part of the civil works contract with the contractor;
 - d. Advise IA on all matters concerning implementation of the civil works contract including quality control, progress of work, arbitration or litigation, certification for payments and compliance with safeguards, etc.;
 - e. Provide the staff of the IA with on-site training in contract administration and other procedures relevant to site supervision and contract administration.

C. Detailed Scope of Work

5. **Design Review and Approval:** During the initial period, the consultants shall carry out a review of the detailed design made available by the IA. The scope of work shall include, but not limited to, the following:

- a. Establish the schedule, methods, and procedures for the review of detailed engineering design and construction drawings of civil works, submitted by the Contractor. Care should be taken to minimize climate impacts and implement GHG reduction measures;
- b. Review the detailed design and construction drawings in accordance with the design standards/technical specifications and the actual site requirements. The design review shall be completed within 45 days of the commencement of services and approval of the good for construction drawings immediately, but not later than 7 days from the date of submission to facilitate the commencement of works;
- c. Ensuring that the technical specifications have been duly accounted for in the detailed engineering design and construction drawings; and
- d. Provide periodic status reports to the IA and ADB on the design review as measured against the approved schedule, identify any problems and difficulties encountered and the proposed solutions.

6. **Contract Administration and Construction Supervision:**

6.1 **General**

- a. The construction works will be executed under the International Federation of Consulting Engineers (FIDIC) Conditions of Contract for Works of Civil Engineering Construction. Accordingly, ARS will be the 'Employer' and the consultant will function as the 'Engineer' subject to certain requirements for the Engineer to seek the approval of the Employer prior to taking action under specified clauses of the contract.
- b. The consultant will administer the civil works contracts and supervise the day-to-day civil works on site following construction supervision procedures based on sound international practices to (i) ensure that the Project is constructed in accordance with the provision of the civil works contract (ii) monitor the completion of the Project within the agreed program and budget and to the quality standards and safeguard provisions stipulated in the contract (iii) monitor compliance with the safeguard requirements and ensure that adequate mitigation measures have been taken during the implementation of the Project (iv) maintain communication with local communities and help identify and resolve emerging issues and complaints; and (v) advise the IA on matters concerning implementation of the Project.
- c. The consultant will be required to report the IA and ADB on matters concerning implementation of the project. The consultant shall also participate in ADB's review Missions at site and with the IA; take necessary steps to resolve any issue and report to ADB subsequently.
- d. The consultant will be required to nominate an Engineer's Representative who will be full-time resident in the project area.

6.2 **Construction Supervision**

- e. The responsibility of the Engineer shall include, but not limited to, the following tasks:

- (i) Ensure that the Notice to Commence is issued to the Contractor clearly stipulating the start date of the Project;
- (ii) Ensure that the project site/right of way, free from all encumbrances, is handed over to the Contractor in accordance with the agreed schedule or otherwise advise the Employer of possible delays in handing over of the project site;
- (iii) Ensure that the Contractor has submitted all the required bank guarantees (performance securities, advance payment guarantee and guarantee for release of retention money, if any) and insurance policies required in accordance with the contract. Also, ensure that these documents conform to the requirements prescribed in the contract and that they protect the interests of the IA;
- (iv) Examine the Contractor's work program (or the revised work program) and accord the approval to the Contractor to carry out the works. Wherever required, facilitate the reaching of agreement between the Employer and the Contractor regarding the work program (or the revised work program) and ensure that the construction works are carried out in accordance with the agreed work program. The Engineer will keep the Employer informed of any delay or potential delays in the work schedule of the Contract, and will take all necessary actions to prevent potential delays;
- (v) Ensuring that contractors proposal for deployment of key-personnel named in the contract is approved;
- (vi) Liaise with the appropriate authorities to ensure that all the affected utility services are promptly relocated to avoid any disruption to the works;
- (vii) Monitor land acquisition and resettlement activities undertaken by the Employer and provide the required support, as and when required;
- (viii) Ensure that all the construction equipments are mobilized by the Contractor in accordance with the work program/contract and inspect the Contractor's equipments;
- (ix) Approve and/or issue working drawings/good for construction drawings and issue instructions to the contractor as required in accordance with the contract specification and Contractor's quality management plan;
- (x) Issue clarifications and supplementary drawings to the Contractor and/or approve alternate drawings, provide the Contractor with all necessary surveys and reference data to facilitate the work and to avoid any potential delays in implementation of the works;
- (xi) Inspect and approve all material sources identified by the Contractor;
- (xii) Inspect the results of material and soil tests to ensure compliance with specifications and issue immediate notice(s) to the Contractor in the event that such materials and works failing to comply with the specifications;
- (xiii) Supervise the Contractor's in all matters concerning safety and care of civil works including provision of necessary lights, guardrails, fencing and security;

- (xiv) Regularly monitor and inspect the contractor's quality control and assurance program to ensure that quality of the finished works meet the contract standards and specifications. This includes regular checking of the materials testing program;
- (xv) Assess and check the laboratory and field tests carried out by the contractor, and carry out independent tests;
- (xvi) Prepare the non-conformity reports and propose the rectification work or solution;
- (xvii) Monitor progress of the construction works through computer-aided project management techniques;
- (xviii) Convene regular site meetings with the Contractor to discuss issues and problems affecting the progress, and brief the Employer;
- (xix) Coordinate with the relevant local government authorities/agencies so as to minimize disruption to the works program, as required by the Contractor;
- (xx) Review and comment on the monthly progress reports submitted by the contractor detailing the work undertaken during the previous month, the progress of the work against the approved schedule, the problems and difficulties encountered by the contractor and other issues requested by the Employer;
- (xxi) Assist the IA in processing the Contractor's application for subcontracting parts of the works, and removing ambiguities and the contract documents, if any.
- (xxii) Issue orders to the Contractor to remove or improve any works that are not in accordance with the drawings and/or specifications;
- (xxiii) Maintain records of all testing work, including cross-referencing of items of work to which each test refers and location from which any samples were obtained for testing;
- (xxiv) Measure the completed works and keep detailed records, including the measurement books;
- (xxv) Maintain permanent record which shall include, but not limited to, site correspondences, survey data, work program, material testing results, quality acceptance data, site diaries, measurement and certification, minutes of meetings, and records of all the data/reports/certificates/statements, etc., under the contract. This permanent record shall be handed over to the IA after the expiry of the consultancy contract;
- (xxvi) Prepare quarterly cashflow projections for the Employer in an acceptable format, in which cashflow should identify budget estimates for all outstanding works;
- (xxvii) Maintain records of all plant, labour and materials used in the construction of the works;
- (xxviii) Measure the work and certify the interim and final payment certificates for submission to the Employer;
- (xxix) The Consultant will be responsible for checking and monitoring the performance requirements in the Contract and ensuring the criteria and limits are met;
- (xxx) Maintain a day-to-day diary, which shall record all events pertaining to the administration of the contract, request forms, and order given to the Contractor, and any other information which

- may at a later date be of assistance in resolving queries which may arise connecting execution of the works;
- (xxxix) Assess and make necessary recommendations to the IA on the Contractor's applications for extension of time, claims for additional payment, contract variations, changes in scope of work, any disputes, etc.;
 - (xxxvii) Review all claims submitted by the Contractor and provide advice to the Employer of the validity of the claim, the effect of such claim on the construction schedule and the cost of the project;
 - (xxxviii) Advise and assist the Employer with respect to arbitration or litigation relating to the works, whenever required;
 - (xxxiv) Issue Taking Over Certificates in respect of satisfactory completion of the works in accordance with the contract provisions;
 - (xxxv) At the completion of the contract, verify the contractor's "as-built drawings" as a true record of the works as constructed and ensure that the works have been executed in accordance with all the provisions contained in the contract/in accordance with the technical specifications including those relating to the standards of workmanship, safety requirements, and compliance with safeguard requirements;
 - (xxxvi) Undertake environmental monitoring to ensure that the construction methods proposed by the Contractor for carrying out the works are satisfactory, with particular references to the technical requirements of sound environmental standards on the basis of the Asian Development Bank (ADB)'s Safeguards Policy Statement 2009;
 - (xxxvii) Ensure that the construction works are undertaken based on the environmental management plans to mitigate the environmental issues as detailed in the Environmental Impact Assessment (EIA) and the Initial Environmental Examination (IEE). The Ecologist in the construction Supervision team will prepare the specific protocols of the turtle management plan (provided in the EIA and EMP) and will oversee implementation of the plan during the culvert construction stage. The status of the implementation of environmental management plans and the environmental monitoring reports shall be covered in the reports submitted by the Engineer to the IA and ADB;
 - (xxxviii) Carry out environmental management seminars for the Contractor and IA's staff;
 - (xxxix) Prepare internal monitoring reports on the land acquisition and resettlement activities (including the livelihood restoration activities through job placement of members of severely affected and vulnerable households) in accordance with the Land Acquisition and Resettlement Plan (LARP) prepared by the IA in line with the ADB's Safeguards Policy Statement 2009;
 - (xl) ensure minimum disruption to the local settlements while approving contractors' work program, including monitoring of the impacts of construction work on local settlements, and by reporting impact monitoring to the Employer;

- (xli) Ensure that no child labour is used for the construction works as required under the civil works contracts; but the opportunities for skilled female labour should be facilitated and made available;
- (xlii) Monitor the implementation of the health and safety program at camp site including the information and education campaign on sexually-transmitted diseases and HIV/AIDS (human immunodeficiency virus/acquired immunodeficiency syndrome) shall be dealt in a gender-sensitive manner as required under the civil works contracts;
- (xlili) Provide on-the-job training for the IA's staff at site on construction supervision, contract administration, quality control and assurance, safeguards, PPMS and monitoring and evaluation and other activities.

6.3 **Project Performance Monitoring/Benefit Monitoring and Evaluation:**

The consultant will help IA establish a system for project performance monitoring in accordance with the project framework. The consultant will:

- a. identify, on the basis of the project framework developed during project processing, performance indicators and the targets to be monitored during the implementation of the Project;
- b. establish systems for collecting data and statistics for such monitoring;
- c. carry out a baseline survey on performance indicators including on poverty, socioeconomic survey, gender development, employment-generation amongst others to refugees and ex-combatants, and other social and economic development activities and establish a set of baseline data based on which the project impacts will be reassessed;
- d. collect required data and undertake other relevant surveys before construction, during construction, and immediately after completion of the Project;
- e. assess the socioeconomic impacts of the Project on potential beneficiaries through selective household surveys and participatory methods;
- f. assess environmental sustainability of the Project;
- g. incorporate findings and supporting data in the project completion report, in accordance with a schedule and terms of reference to be mutually agreed by IA and ADB; and
- h. conduct training in operational social research methods and building the capacity of the IA.

7. Actions Requiring Specific Approval of the Employer: The consultant will be required to obtain prior approval of the Employer in the following matters:

- (i) Approving subletting of any part of the works;
- (ii) Certifying additional cost;
- (iii) Determining an extension of time;
- (iv) Issuing a variation having financial implications; and
- (v) Fixing rates or prices for any item.

D. Duration of Services

8. The consultancy services would be required for a period of **36** calendar months and are expected to commence from January 2013.

E. Team Composition

9. It is estimated that about **100** person months of international consultants' services and about **150** person months of national consultants' services would be required by the IA to accomplish the tasks. The requirement of various experts and the duration of their engagement are indicated below. However, the consultants may propose additional staff, within the budget, that may be required to accomplish the tasks.

Sr.	Expertise	Input (PM)
A.	International Consultants	
1	Team Leader/Sr. Highway Engineer	30
2	Resident Engineer/Highway cum Bridge Engineer	24
3	Bridge Specialist/Structural Engineer	10
4	Pavement Engineer	6
5	Geotechnical /Materials Expert	8
6	Quality Control Engineer	12
7	Contract Specialist	4
8	Environmental Specialist	2
9	Social Sector/Resettlement/Benefit Monitoring Specialist	3
10	Turtle Expert/Ecologist	1
	Subtotal (A)	100
B.	National Consultants	
11	Deputy Resident Engineer/Highway cum Bridge Engineer	30
12	Bridge Specialist/Structural Engineer	20
13	Pavement Engineer	12
14	Geotechnical /Materials Engineer	10
15	Hydraulics and Drainage Engineer	6
16	Environmental Specialist	4
17	Social Sector/Resettlement/Benefit Monitoring Specialist	12
18	Quality Control Engineer	26
19	Quantity Surveyor	30
	Subtotal (B)	150
	Total (A+B)	250

F. Qualification Requirements

10. The minimum qualification requirements for all the positions are indicated below. The maximum age limit for all the positions shall be 60 years.

a. International Consultants:

- **Team Leader/Sr. Highway Engineer:** Degree in civil engineering and post graduate degree in highway engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 15 years' similar experience in design and

construction supervision of highway projects, including 8 years' international experience.

- **Resident Engineer/Highway Engineer:** Degree in civil engineering and post graduate degree in highway engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 15 years' similar experience in design and construction supervision of highway projects, including 6 years' international experience.
- **Bridge Specialist/Structural Engineer:** Degree in civil engineering and post graduate degree in structural engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 12 years' similar experience in design and construction of interchanges, flyovers, bridges, culverts, causeways, and other structures, including 6 years' international experience.
- **Pavement Engineer:** Degree in civil engineering and post graduate degree with specialization in pavements or geotechnical engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 12 years' similar experience in review of pavement designs, establishing QA/QC procedures, setting up laboratories, mix designs and testing procedures involved in design and construction of highways, including 6 years' international experience.
- **Geotechnical/Material Expert:** Degree in civil engineering and post graduate degree in geotechnical engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 12 years' similar experience in soils surveys and geotechnical investigations for the design and construction of structure foundations, tunnels and road pavements, including 6 years' international experience.
- **Quality Control Engineer:** Degree in civil engineering and post graduate degree in geotechnical engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 12 years' similar experience in all phases of quality assurance process, supervision of construction works, laboratory and field testing for flexible pavement materials as per ASTM, AASHTO and BS standards; sound judgment in applying technical expertise to resolve a range of issues/problems, including 6 years' international experience.
- **Contract Specialist:** Degree in civil engineering. Should possess professional licensing (charted/certified) and the right to practice the profession. At least 12 years' similar experience in implementation of highway projects using FIDIC conditions of contract involving contract management including change in scope of work, variations under the contract, settlement of claims and disputes, etc., including 6 years' international experience.
- **Environmental Specialist:** Degree or post graduate degree in environmental sciences or equivalent. At least 10 years' experience in conducting environmental impact assessments and implementation of environment mitigation plans and/or monitoring implementation of environmental mitigation measures during implementation of projects including highway projects funded by developing partners, including 5 years' international experience.

- **Social Sector/Resettlement/Benefit Monitoring Specialist:** Degree or post graduate degree in sociology or social sciences or equivalent. At least 10 years' experience in development and/or implementation of resettlement plans, conducting socio-economic surveys and benefit monitoring involved in implementation of projects including highway projects funded by developing partners, including 5 years' international experience.
- **Turtle Expert/Ecologist:** Post graduate degree in Biological Sciences or equivalent. At least 10 years' experience in working on freshwater turtles and other fresh water sensitive species protection and conservation. Should possess at least 5 years specific experience in fresh water/pond water turtle conservation.

b. National Consultants:

- **Deputy Resident Engineer/Highway Engineer:** Degree in civil engineering. At least 10 years' similar experience in design and construction supervision of highway projects.
- **Bridge Specialist/Structural Engineer:** Degree in civil engineering. At least 10 years' similar experience in design and construction of interchanges, flyovers, bridges, culverts, causeways, and other structures.
- **Pavement Engineer:** Degree in civil engineering. At least 5 years' similar experience in review of pavement designs, establishing QA/QC procedures, setting up laboratories, mix designs and testing procedures involved in design and construction of highways.
- **Geotechnical/Materials Engineer:** Degree in civil engineering. At least 5 years' similar experience in soils surveys and geo-technical investigations for the design and construction of structure foundations, tunnels and road pavements.
- **Hydraulics and Drainage Engineer:** Degree in civil engineering. At least 5 years' similar experience in design and construction of structure foundations, tunnels and road pavements.
- **Environment Specialist:** Degree in environmental sciences or equivalent. At least 5 years' experience in conducting environmental impact assessments and implementation of environment mitigation plans and/or monitoring implementation of environmental mitigation measures during implementation of projects including highway projects funded by developing partners.
- **Social Sector/Resettlement/Benefit Monitoring Specialist:** Degree in sociology or social sciences or equivalent. At least 5 years' experience in development and/or implementation of resettlement plans, conducting socio-economic surveys and benefit monitoring involved in implementation of projects including highway projects funded by developing partners.
- **Quality Control Engineer:** Degree in civil engineering At least 5 years' similar experience in all phases of quality assurance process, supervision of construction works, laboratory and field testing for flexible pavement materials as per ASTM, AASHTO and BS standards; sound judgment in applying technical expertise to resolve a range of issues/problems.

- **Quantity Surveyor:** Degree in civil engineering. At least 5 years' experience as quantity surveyor in construction of road projects executed under FIDIC conditions of contract.

G. Reporting Requirements

11. The consultant will prepare and submit the following reports, three (3) copies each in English and Azeri to the IA and two (2) copies in English to ADB:

- Inception report including the report on the performance indicators to be monitored during and at the end of the implementation of the Project, to be submitted within 1 month of commencement of services;
- Report on the data-collection system and the baseline survey for the Project Performance Monitoring/Benefit Monitoring and Evaluation, to be submitted within 3 months of commencement of services;
- A weekly one-page report on the progress of works and any issues that require immediate attention of the IA;
- Monthly reports, to be submitted within 7 days of the end of each month, to include progress monitoring, quality assurance/quality control, schedules of contract payments and variation orders, graphical representations of progress against program based on the approved contract schedules, charts of physical progress on major items, status of any delays, contractual claims, relevant photographs, details of all financial projections and details of impediments to the works and proposals for overcoming them;
- Annual appraisal reports covering all aspects such as progress monitoring, quality assurance/quality control, status of any delays, contractual claims, and details of all financial projections, to be submitted within 14 days of the end of each year;
- Project completion report, in ADB's format, to be submitted by the IA to ADB, within 3 months of completion of the civil works.

H. Implementation Arrangements and Counterpart Support

12. The AzerRoadServices (ARS) Open Joint Stock Company under the Ministry of Transport shall be the Implementing Agency (IA) for this project. The Project Implementation Unit (PIU) within the ARS will serve as the liaison between ARS, consultants and the contractor, and shall be responsible for the overall project management.

13. The IA shall provide, through the provision under the civil works contract, fully furnished office and accommodation for the staff of the consultants, equipments including laboratory equipments, vehicles, and office stationery and consumables, etc. The IA shall also provide all relevant reports, documents, detailed designs, etc. relating to the Project and qualified counterpart personnel to work in close coordination with the consultants.

I. Consultant Selection Method and Budget

14. The consultant will be selected in accordance with the *ADB's Guidelines on the Use of Consultants (April 2010, as amended from time to time)*, and using the **Quality- and Cost-Based selection (QCBS)** method, with a quality: cost ratio of 90:10, based on full technical proposals (FTP). In particular, the short-listing of the consulting firms will involve assessment of the following:

- (a) Similar experience of the firm (including associations and joint ventures) in the last ten (15) years;
 - (b) Experience in Azerbaijan and/or in the Region in the last ten (10) years; and
 - (c) Nature of the firm and technical and managerial capabilities.
15. The estimated maximum budget for the assignment is USD6.0 million.

OUTLINE TERMS OF REFERENCE FOR PROGRAM MANAGEMENT CONSULTANT

A. Introduction

1. The Government of the Republic of Azerbaijan (the Government) has requested the Asian Development Bank (ADB) to provide financial assistance for the Second Road Network Development Program (the investment program) under the proposed Multi-tranche Financing Facility (MFF). The Ministry of Transport (MOT) will be the executing agency and ARS will be the implementing agency. Under the investment program, it has been proposed to engage program management consultant (PMC). PMC will also build the ARS's capacity through on the job training and other specialized trainings for PIU, including the capacity to integrate climate proofing measures in the road design, procurement, construction monitoring and maintenance, environmental and social safeguards, financial management, contract and project management so that the PIU staff can independently handle program management in future. PMC shall help ARS in submitting project/program management reports to MOT and ADB. Thus PMC role is to build the capacity and not to substitute the capacity. PMC shall be responsible for assisting ARS in overall program management and shall submit reports to ARS, MOT, Project Steering Committee (PSC) and ADB on all matters concerning program implementation.

2. The PMC and PIU jointly will oversee all activities under the investment program, including project preparation and implementation, procurement of works and selection of consultants, disbursements and financial management, compliance with safeguard requirements and reporting to MOT and ADB. PMC will introduce a suitable management information system in the PIU and train them for efficient and effective management of the investment program. The PMC will assist ARS in preparing and submitting flash reports and photographs concerning implementation progress of each tranche. It will also submit other required performance and monitoring reports consistent with existing project implementation requirements and compliance with covenants to EA and ADB. The implementation progress reports will include evaluation of issues/problems and recommendations for remedial actions.

3. In order to administer the program/project effectively, the existing Steering Committee chaired by a deputy minister of transport, with representations from the Cabinet of Ministers' Office, Ministry of Economic Development, Ministry of Finance, Ministry of Transport, ARS, and the PIU director among others constituted by the Government to oversee the implementation of the first Road Network Development Program will continue to provide overall guidance for the implementation of the investment program as Program Steering Committee (PSC). PSC will meet quarterly to monitor and ensure taking appropriate measures for timely implementation of the projects. PSC will ensure interagency coordination to facilitate timely approvals from various agencies and provide overall guidance for implementation of the investment program.

B. Objective of the Consultancy Service

4. ARS is soliciting proposals from national and international firms of consultants with experience and knowledge to improve the efficacy of program management and help its management and staff to increase oversight of ADB financed projects (as and when urgently needed, other projects implemented by ARS), make timely and optimum decisions, and enhance their project management skills. The objective is to ensure effective project delivery, contract compliance, effective planning, timely procurement by maintaining transparency at

each stage, compliance with safeguard requirements and quality assurance. It is assumed that the PMC's actions and advice will lead to: reduced time for procurement and contracting of works, goods, and services (from the time of approval by ADB to the time of mobilization); on-time and within budget completion of works; timely payment to contractors and consultants; a higher level of staff skills; and help promote trust, teamwork, and customer-orientation at ARS.

C. Scope of Services

5. PMC shall be responsible for assisting ARS in overall program management in coordination with Ministry of Transport (MOT), Ministry of Finance (MoF) of the Republic of Azerbaijan, consultants, SCs, ADB, other line ministries and donors. PMC shall provide, through regular site visits and reviews of reports, the services broadly described below:

1. Program Management

- a. Recommend to ARS, actions needed to resolve critical issues related to ADB financed projects, including, but not limited to: (i) SCs' proposals, instructions such as notices to proceed, change orders, extensions of time, changes in cost estimates and financing plans, recruitment and/or replacement of personnel, etc. in on-going projects; (ii) preparation and design of new projects; (iii) procurement of works, goods, and services; (iv) maintenance of existing and new road sections; (v) compliance with ADB safeguard requirements; (vi) emerging safeguards issues and complaints during project implementation; (vii) maintenance of project accounts and facilitation of external financial audits; (viii) procurement and construction delays and cost/price variations; and (ix) overall performance of the service providers and contractors;
- b. In consultation with ADB, MOT, ARS and the relevant documents (RRPs, TA papers, Aide Memoires, etc.) prepare schedules of key activities related to procurement, contracting, and project implementation for each component under each tranche of the investment program to be used as a base schedule. Monitor the actual implementation of the plan and assist ARS in taking corrective measures as and when required. Also assist ARS in ensuring that all the components under the Projects are implemented and provide assistance in resolving issues impeding the progress of all the components;
- c. Assist ARS in preparing periodic financing requests (PFR) for the subsequent tranches/new projects to be financed out of Multi-tranche Financing Facility (MFF). The activities will include but not limited to: coordination with design consultants; carry out technical reviews of the feasibility studies and detailed designs and facilitating ARS's approval to design, technical standards, bills of quantities and cost estimates; finalization of Initial Environment Examination (IEE)/Environmental Impact Assessment (EIA) and Land Acquisition and Resettlement Plan (LARP), preparation of external resettlement monitoring reports as per ADB's requirements; finalization of economic analysis as per the requirements of ADB; preparation of PFR and PFR Report; coordinate with ADB for approval of draft PFR and assist ARS in negotiation, as and when required;
- d. Assist ARS in preparing and/or updating the procurement plans and in timely procurement of works and consultancy services. The activities will

include but not limited to: preparation of bid documents/RFP, terms of reference, carrying out technical and financial evaluation, contract negotiations, obtaining all the approvals from ADB and award of contracts, etc.;

- e. Assist ARS in establishing a formal procedure for monitoring, reviewing, and reporting by the SCs on respective projects with performance targets and a schedule for achieving the targets;
- f. Introduce a streamlined management information system (MIS) using latest technology to provide ARS and ADB a snapshot of progress (including progress photographs) at any given time (e.g., in the form of information uploaded to a particular website for easy access by all the stakeholders), including summaries of progress reports submitted by the consultants with special emphasis on the major problems in implementation of the projects and the steps that are required to be taken by the Employer / Consultants to overcome such problems;
- g. Assist ARS in performing routine reviews of ADB-financed projects to ensure that roads are designed and constructed strictly in accordance with the provisions of the contracts, technical specifications; ADB specified social and environmental safeguards, loan covenants, international best practices, and national laws and regulations;
- h. Assist ARS to ensure compliance with safeguard requirements – ensure that (i) the entire resettlement activities are carried out in accordance with the ADB's requirements (including implementation of livelihood restoration activities through prioritization in employment for members of severely affected and vulnerable households), (ii) environment management plans are being implemented during the project implementation effectively and (iii) all requirements in the EIAs and EMPs are addressed in the bid documents and monitored. All loan agreement covenants relating to critical wildlife in the project area are appropriately addressed. All critical wildlife related mitigation measures and plans should be effectively coordinated and implemented as required. Assistance should also be provided to ARS in establishing and managing an effective grievance redress system and timely reporting to ADB and ARS of emerging issues and complaints related to projects under the MFF;
- i. Assist ARS in preparing yearly contracts' award and disbursements targets, review actual performance on a monthly basis, identify reasons for shortfall and follow up with the borrower and the executing agency in a timely manner to take appropriate measures;
- j. Assist ARS in ensuring compliance to loan covenants by the borrower/executing agency and ensuring that all the stipulated contract conditions, more specifically ADB's social and environmental safeguard aspects, have been complied with by the contractors and consultants in implementation of projects;
- k. Assist ARS in carrying out assessment to ensure compliance with ADB's Safeguard Policy Statement (SPS) 2009, resettlement and environment frameworks and EIAs and LARPs during the implementation of the investment program. Specifically, the consultants shall carry out post project monitoring of the wildlife once after one year and another after 5 years of the completion of each tranche;

- l. The construction of the road passes through wetland areas. The consultants should possess environmental management expertise to effectively supervise the road construction in wetland areas and ensure that the mitigation measures as per the EMP are implemented in coordination with supervision consultants;
- m. Report on the assessment of DMF performance targets/indicators for each tranche of the investment program;
- n. On an ongoing basis, perform a Business Process Review of the adequacy, and effectiveness of the existing accounting, record keeping, and financial reporting environment and the corresponding systems, procedures and internal control environment in ARS and recommend for required improvements;
- o. Oversee the contractor and supervision consultant activities and ensure that they are implementing and monitoring gender designs (such as comfort rooms, bus-stops, access facilities), providing opportunities for skilled female labour, and dealing with HIV matters in a gender-sensitive manner;
- p. Perform a review of the internal and external audits currently being undertaken and through a dialogue with internal and external auditors identify and proceed to bridge any gaps in the scope, approach and methodology adopted by internal and external auditors;
- q. Provide on-the-job training and other specialized trainings to ARS staff, and PIU staff in particular, on all aspects of project management (including integration of climate proofing measures in the road design, procurement, construction monitoring and maintenance, environmental and social safeguards, financial management, and contract management) to ensure that the staff are confident and fully trained to carry on the required tasks independently at the end of this consultancy;

2. Road Sector Studies

- a. Carry out a comprehensive assessment of various studies on road sector being conducted by the consultants engaged by development partners;
- b. Based on the assessment, assist ARS in preparing terms of reference and RFP for engagement of consultants to carry out the following tasks:
 - (i) Mainstreaming the road safety audits in the road network development; and network management. This will include road safety audit during design, construction and operation of various roads, including the secondary and local roads and in implementation of road safety measures;
 - (ii) Development of independent set of road standards and specifications for Azerbaijan, including the specifications for pavement layers design for different terrains (local site conditions) and climatic conditions. The consultants shall take into account the progress made so far under one of the capacity building initiatives and will develop and finalize the standards and specifications with additional studies and data to be collected.
- c. PMC will assist in selection of the consultants for each of the above studies which will include, but not limited to, preparation of terms of

reference and RFP documents, carrying out technical and financial evaluation, contract negotiations, obtaining all the approvals from ADB and award of contracts, etc.;

- d. Post award of contract for the above studies, PMC will monitor the services performed by the consultants, review the reports submitted and assist ARS in finalizing these outputs of the consultants for implementation.

3. Management of Road Network

- a. The PMC will assist ARS in selection of consultants for the following services which will include, but not limited to, preparation of terms of reference and RFP documents, carrying out technical and financial evaluation, contract negotiations, obtaining all the approvals from ADB and award of contracts, etc.:
 - (i) Assist in collection of data about road conditions and update the road database (road asset management system) on a periodical basis;
 - (ii) On the basis of the updated information available in the road asset management system, prioritize various roads sections requiring routine and periodical maintenance;
 - (iii) Prepare bid documents, along with the performance parameters, for engagement of private sector contractors under long term performance based contracts for the prioritized sections of the roads;
 - (iv) Assist ARS in procurement activities and in award of contracts.
- b. Post award of contract for the above study, PMC will monitor the services performed by the consultants, review the reports submitted and assist ARS in finalizing the outputs of the consultants for implementation.

D. Expected Outcome

6. With the support of the PMC in management of ADB financed projects, it will be expected that:

- (i) All the key activities in the pre-construction stage of projects such as feasibility study and/or detailed designs, procurement of goods, works, and services for the approved projects, and award of contracts are in accordance with ADB policies, procedures, and schedules agreed between the Government and ADB; and are completed without any delay;
- (ii) All the key activities in the construction stage of projects such as commencement of works, contractor's mobilization, timely implementation of the projects, issuance of change orders, extensions of time, levy of liquidated damages, etc., and all technical/financial formalities are performed in accordance with ADB policies and procedure, and schedules agreed between the Government and ADB;
- (iii) Periodic financing requests (PFRs) and related documents for future projects are submitted to ADB as agreed between the Government and ADB;

- (iv) All bidding documents/RFPs, evaluation reports and other reports are prepared in a timely manner;
- (v) All the loan covenants are met by the Borrower. This shall be ensured in a phased manner in respect of all ongoing projects as also for the future projects. Reports regarding this shall be submitted to ADB on a periodical basis;
- (vi) All the components under each Project are completed on time and within budget, including engagement of consultants for various studies and award of performance based maintenance contracts;
- (vii) All staff of the PIU/ARS are well versed in procurement, contracting, contract administration, financial management, social and environmental management, and art of communication with stakeholders to allow them to independently carryout project management duties;
- (viii) All the documents relating to the project (like bids, contracts, approval letters, all project documents, correspondences with contracts/consultants/ADB/MoF/MOT/ARS, financial records, consultants' reports, feasibility studies, detailed design reports, etc.) are maintained effectively and efficiently within the PIU/ARS. PMC will also ensure that all important documents are digitized and maintained in a secured manner by ARS; and
- (ix) Project performance monitoring/benefit monitoring and evaluation system is introduced for all the tranches of the investment programs and the DMF performance targets/indicators are assessed on a periodical basis.

E. Reporting Requirements

7. The PMC will report to ARS and ADB and submit the following reports with three copies to the client, including Azeri translation (one each to the Ministry of Finance, Ministry of Transport and ARS) and two copies to ADB (one each to ADB headquarters and Resident Mission in Baku):

- (i) Inception report to be submitted within 1 month of mobilization;
- (ii) Monthly reports, to be submitted within 7 days of the end of each month, to include the details of the activities performed, the status of all components under each Project, graphical presentations of progress against planned program, details of impediments to the works and the steps for overcoming them;
- (iii) Submit periodical flash reports giving a snapshot of progress, including progress photographs (e.g., in the form of information uploaded to a particular website for easy access by all the stakeholders) with special emphasis on the major problems in implementation of the projects and the steps that are required to be taken by the Employer/Consultants to overcome such problems;
- (iv) Draft final report 2 months' before the completion of the services, which shall be modified taking into account the comments of ADB and the Government.

F. Duration and Team Composition

8. The services will be required initially over a period of 36 calendar months with a possibility of a performance based-extension of another period of up to 36 calendar months. The team should collectively have experience in program management of transport sector projects, civil engineering aspects of roads (geometric design, pavement design, materials, geotechnical, hydraulics, structures, construction, road safety and maintenance), financial

management (budgeting, accounting and disbursements), training and mentoring, social and environmental management, and team leadership. The consulting services will require the following input:

Proposed Staffing					
Position	No.	Person-Months	Position	No.	Person-Months
International Consultants			Domestic Consultants		
Program Management Specialist/Team Leader	1	30	Highway Engineer	1	12
Procurement Specialist/Deputy TL	1	15			
Financial Management Specialist	1	3			
Social Sector and Resettlement Specialist	1	6	Social Sector and Resettlement Officer	1	12
Environmental Specialist	1	4	Environmental Officer	1	9
Road Safety Specialist	1	5			
Pavement Design Specialist	1	6	Pavement Engineer	1	6
Highway Specialist	1	5			
Bridge Specialist	1	4			
Road Network Management Specialist	1	6			
Total (International Consultants)	10	84	Total (Domestic Consultants)	4	39
Total (International and National Consultants) 123 person-months					

G. Counterpart Services and Facilities

9. ARS shall provide, free of charge, counterpart support and facilities necessary for the PMC, including furnished office accommodation (that would include furniture, local telephone facilities, etc.) and available information and other material necessary for implementation of the assignment. The PMC will arrange their own laptops/computers, printers, photocopying machines, internet, consumables, stationery, etc.

H. Eligibility and Qualification Requirements:

10. The consulting firm or its team members should not have been engaged by ARS or a donor agency as a supervision and/or design consultant or an advisor on any project or been part of the contractors' or the SCs' teams in on-going projects funded or administered by ADB.

11. The PMC should have provided services of similar scope, scale, duration, and nature in the last ten years, and have a successful track record of meeting the goals and objectives of the assignment in a timely and efficient manner. This should be demonstrated through a list of projects and references (names and contact information of clients during the past ten years) that can verify the effectiveness and efficiency of the firm's services.

12. The qualifications requirements for the key-personnel are as under:

i. International Consultants:

- a. **Program Management Specialist/Team Leader:** Post Graduate Degree in Highway Engineering or related field with overall 20 years' experience and 15 years' experience in similar position and in similar assignment involving project/contract administration involving planning, project

implementation, reporting, etc. from Employers' point of view and capacity building of clients' staff. He/she should have a thorough understanding of technical aspects of road design and construction as well as a broad understanding of economic, financial, social, environmental and social aspects of road projects. He/she should also have experience in managing multi-disciplinary and multi-national teams, and have a proven track record of successfully completing similar assignments. He/she should have 10 years' of international experience on similar projects with administration of FIDIC. Age limit 60 Years.

- b. **Procurement Specialist/Deputy Team Leader:** Degree in engineering, business administration, or related field and 20 years' experience in profession, with about 15 years' experience in similar positions and in similar assignments involving procurement planning, procurement, contract administration, project implementation and capacity building of client's staff, etc. Minimum 8 years' of international experience on similar projects and experience in procurement planning and procurement of externally assisted projects (ADB, World Bank, etc.). Age limit 60 Years.
- c. **Financial Management Specialist:** Degree in finance, economics or business administration, preferably Certified Accountant or MBA, and 15 years' experience in profession, with about 10 years' experience in handling financial management of large infrastructure projects funded by developing partners (like ADB, World Bank, USAID, etc.) including capacity building of clients' staff. Minimum 5 years' of international experience handling projects financed by international agencies. Age limit 60 Years.
- d. **Social Sector and Resettlement Specialist:** Minimum 10 years experience in resettlement programs in the developing countries with post graduate degree in Sociology or equivalent in similar projects funded by Asian Development Bank/World Bank, including capacity building of clients' staff. 5 years of International experience as in similar projects. Age limit 60 Years.
- e. **Environmental Specialist:** Qualified Environmental Specialist with 15 yrs relevant experience with specialization in establishing procedure for Environment Management system in similar projects funded by Asian Development Bank/World Bank, including capacity building of clients' staff. 5 years' of International experience as Environmental specialist in similar projects, specific experience of having worked in areas where sensitive biodiversity is present. Age limit 60 Years.
- f. **Road Safety Specialist:** Degree in Transportation Engineering or related field with overall 15 years' experience and 10 years' experience in similar position and in similar assignment involving road safety audit, implementation of road safety measures, etc., and have a proven track record of successfully completing similar assignments. He/she should have 5 years' of international experience on similar projects. Age limit 60 Years.
- g. **Pavement Design Specialist:** Degree in civil engineering and post graduate degree with specialization in pavements engineering with 15 years' experience in design of pavement layers for different terrains (local site conditions) and climatic conditions. Should have experience in developing pavement design standards and specifications for any

country. He/she should have including 6 years' international experience. Age limit 60 Years.

- h. **Highway Specialist:** Post Graduate Degree in Highway Engineering or related field with overall 15 years' experience and 10 years' experience in similar position and in similar assignment and should have a thorough understanding of technical aspects of road design and construction. He should have a thorough understanding of the road standards and specifications adopted by developed and developing countries and countries with similar geographical and climatic conditions. Should have experience in developing road/highway standards and specifications for any country. He/she should have 6 years' of international experience on similar assignments. Age limit 60 Years.
- i. **Bridge Specialist:** Post Graduate Degree in Structural Engineering or related field with overall 15 years' experience and 10 years' experience in similar position and in similar assignment and should have a thorough understanding of technical aspects of design and construction of bridges, structures, flyovers, interchanges, etc. He should have a thorough understanding of the standards and specifications for bridges and other structures adopted by developed and developing countries and countries with similar geographical and climatic conditions. Should have experience in developing standards and specifications for bridges/flyovers/structures, etc., in foreign country. He/she should have 5 years' of international experience on similar assignments. Age limit 60 Years.
- j. **Road Network Management Specialist:** Degree in Civil Engineering; preferably at post graduate level and 15 years' experience in profession, with about 10 years' experience in management of road network involving collection of data about road conditions, maintenance of road database (road asset management system), project planning, development of performance parameters/specifications for maintenance, procurement, project implementation, etc., including capacity building of clients' staff. Should have experience in designing, developing and awarding performance based maintenance contracts. Minimum 6 years of international experience handling projects financed by international agencies. Age limit 60 Years

ii. **Domestic Consultants:**

- a. **Highway Engineer:** Degree in Civil Engineering or in Highway Engineering or related field with overall 10 years' experience in similar position and in similar assignment involving project/contract administration from Employers' point of view and capacity building of clients' staff. He/she should have a thorough understanding of technical aspects of road design and construction and have a proven track record of successfully completing similar assignments. Should have experience in handling projects funded by international agencies and experience on similar projects with administration of FIDIC. Age limit 60 Years.
- b. **Social Sector and Resettlement Officer:** Minimum 6 years experience in resettlement programs in the developing countries with degree in Sociology or equivalent in similar projects funded by Asian Development

- Bank/World Bank, including capacity building of clients' staff. Age limit 60 Years.
- c. **Environmental Officer:** Qualified Environmental Specialist with 6 yrs relevant experience with specialization in establishing procedure for Environment Management system in similar projects funded by Asian Development Bank/World Bank, including capacity building of clients' staff. Age limit 60 Years.
 - d. **Pavement Engineer:** Degree in civil engineering with 6 years' experience in design of pavement layers. He/she should have country specific knowledge of design pavement requirements for different site conditions and climatic conditions. Age limit 60 Years.

I. Consultant Selection Method and Budget

13. The consultant will be selected in accordance with the *ADB's Guidelines on the Use of Consultants (April 2010, as amended from time to time)*, and using the **Quality- and Cost-Based selection (QCBS)** method, with a quality: cost ratio of 90:10, based on full technical proposals (FTP). In particular, the short-listing of the consulting firms will involve assessment of the following:

- a. Similar experience of the firm (including associations and joint ventures) in the last ten (15) years;
- b. Experience in Azerbaijan and/or in the Region in the last ten (10) years; and
- c. Nature of the firm and technical and managerial capabilities.

14. The estimated maximum budget for the assignment is USD4.0 million.

OUTLINE TERMS OF REFERENCE FOR FINANCIAL AUDITOR

1. Introduction

- 1.1 The Government of the Republic of Azerbaijan (the Government) has requested the Asian Development Bank (ADB) to provide financial assistance for the Second Road Network Development Program (the Program) under the proposed Multi-tranche Financing Facility (MFF). The funds shall be used to finance civil works and consultancy services. The Ministry of Transport (MOT) will be the executing agency and ARS will be the implementing agency.
- 1.2 For the MFF, the MOT and ARS will maintain separate project records and accounts adequate to identify the (i) works and services financed from the loan proceeds, (ii) financing resources received, (iii) expenses incurred on the components of project, and (iv) use of counterpart funds. Project accounts will follow international accounting principles and practices.
- 1.3 The project accounts are required to be audited in accordance with International Standards on Auditing by an auditor acceptable to ADB. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the executing agency. The annual audit report will include a separate audit opinion on the use of the imprest accounts, SGIA, and the SOE procedures, if applicable.

2. Objectives of Audit

The objective of the audit of project accounts is to ensure, through the auditor's professional opinion on the financial position of the projects financed by ADB at the end of each fiscal year and of the funds received and expended for the accounting period ended, that the project funds (loan/grant) are being utilized properly to achieve the intended objectives of the Project, and that the financial covenants of the loan agreements are being adhered to. The auditor's opinion is necessary to establish the creditability, or otherwise of the project accounts prepared by ARS.

3. Scope of Audit

- 3.1 The auditors are required to audit the project accounts for the year ended on XX XXXX XXXX in respect of the following loan financed projects of ADB.

<Insert the details of the loan financed projects of ADB>

- 3.2 The auditor should assess the adequacy of the project financial management systems, including internal controls to assess whether: (i) proper authorizations are obtained and documented before transactions are entered into; (ii) accuracy and consistency are achieved in recording, classifying, summarizing, and reporting transactions; (iii) reconciliations with internal and external evidence are performed on a timely basis by the appropriate level of management; (iv) balances are confirmed with external parties; (v) adequate documentation and an audit trail is retained to support transactions; (vi) transactions are allowable under the loan or agreements governing the project;

(vii) errors and omissions are detected and corrected by project personnel in the normal course of their duties, and management is informed of recurring problems or weaknesses; (viii) management does not override the normal procedures and the internal control structure; and (ix) assets are properly accounted for, safeguarded and can be physically inspected.

3.3 The audit should be carried out in accordance with generally accepted standards of auditing followed in Azerbaijan, and will include such test and procedures as the auditor considers necessary under the circumstances. The audit should include but not be limited to-

- (i) An assessment of the adequacy of accounting and internal control systems with respect to project expenditures and other financial transactions, and to ensure safe custody of the project-financed assets;
- (ii) A determination as to whether ARS has maintained adequate documentation on all relevant transactions;
- (iii) Confirmation that the expenditures incurred are for the purpose for which funds have been provided by ADB and that such expenditures are eligible for financing under the relevant loan or grant;
- (iv) Compliance with financial covenants of the loan agreement and ADB's requirements for project management.
- (v) Audit of Statement of Expenditures (SOEs) and an audit of imprest account, if applicable.

3.4 In conducting the audit, the following should also be taken into consideration by the auditors, but not be limited to:

- (a) all funds provided by the Asian Development Bank (ADB) and its co financiers have been used in accordance with the conditions of the relevant loan agreements, with due attention to economy and efficiency, and only for the purposes for which the funds were provided;
- (b) counterpart funds, if any, have been provided and used in accordance with the relevant agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
- (c) goods and services financed have been procured in accordance with the relevant ADB and/or its co-financiers' agreements;
- (d) all necessary supporting documents, records, and accounts have been kept in respect of all project expenditures (including expenditures reported using Statement of Expenditures or Imprest Fund procedures, if applicable);
- (e) where Imprest Funds have been used, they have been operated in accordance with the provisions of the relevant loan agreement;
- (f) the financial statements follow acceptable accounting standards and give true and fair description of the financial positions of the submitting entity.

3.5 The auditor shall pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all the project activities with clear linkages between the accounting records and the annual project accounts. This should include but not be limited to-

- (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts or records;
- (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents;
- (iii) physical observation, including inspecting or counting tangible assets, such as materials, inventory, land buildings, property or equipment;
- (iv) confirmation, including directly confirming balances or transactions with external third parties, such as cash balances, accounts receivable or accounts payable;
- (v) sampling, including vouching or examining supporting documentation to determine if balances are properly stated; and
- (vi) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

3.6 On conclusion of the audit, the auditor will prepare a management letter for each of the audited projects, detailing, but not be limited to:

- (a) Any material weaknesses in the accounting and internal control systems that were identified during the audit;
- (b) Recommendations to rectify identified weaknesses;
- (c) The status of significant matters raised in previous management letters;
- (d) Practical recommendations on the steps that could be taken to become materially compliant with the agreed project accounting policies (see Terms and Definitions), together with a time frame for making these changes;
- (e) The degree of compliance with each of the financial covenants in the Loan Agreement and recommendations for improvement;
- (f) Matters that have come to the auditor's attention during the course of the audit which have a significant impact on project implementation;
- (g) Any other matters that the auditor considers should be brought to the attention of the project's management; and
- (h) Significant matters that the auditor considers should be brought to ADB's attention.

4. Auditor's Opinion

4.1 The project accounts should be audited in accordance with appropriate auditing standards consistently applied by the Auditor. The Auditor should specify in the Auditor's Report the auditing standards followed by them in conducting their audits. Furthermore, they should expand the scope paragraph in the Auditor's Report by disclosing, at least, the key audit procedures followed in the audit.

4.2 The Auditor shall provide the following opinions and reports to the Minister, Ministry of Transport with copies to the Ministry of Finance and the Asian Development Bank (ADB):

- (i) Audit opinion on the annual project accounts (APA) in respect, which shall include, but not be limited to, the following items:
 - a. an assessment of the internal control systems in terms of expenditures and financial transaction,
 - b. maintenance of adequate documentation by ARS,
 - c. compliance with financial covenants of the loan agreement and ADB's requirement for project management,
 - d. budget v/s actual performance indicators/expenditures,

- e. staffing in ARS,
- f. government budget account for counterpart funds,
- g. SOE and direct payment procedures, including a report on expenditures incurred out of imprest account and management of cash in hand, etc., if applicable.

(ii) Management letter

4.3 The Auditor should express an opinion whether the financial statements have been prepared using the generally accepted accounting standards and policies, which have been consistently applied. Apart from expressing an opinion on the financial condition of the Project, the Auditors should also express an opinion as to whether:

- (i) the proceeds of the ADB loan or grant have been utilized only for the Project in accordance with the loan/grant agreement;
- (ii) the financial information contains data specifically agreed upon between the borrowers and ADB as being necessary for inclusion in the financial statements;
- (iii) the financial information complies with relevant regulations and statutory requirements; and
- (iv) all the financial covenants of the loan or grant agreements have been complied with.

4.4 The audit reports shall be submitted by the auditors within 2 (two) months of the commencement of services.

ENVIRONMENTAL ASSESSMENT AND REVIEW FRAMEWORK

List of Abbreviations

ADB	–	Asian Development Bank
ARS	–	AzerRoadServices Joint Stock Company
DSC	–	Design and Supervision Consultant
EA	–	Executing Agency
EARF	–	Environmental Assessment and Review Framework
ECR	–	Environmental Complaints Register
EIA	–	Environmental Impact Assessment
EMP	–	Environmental Management Plan
GoA	–	Government of Azerbaijan
GFP	–	Grievance Focal Points
GRC	–	Grievance Redress Committee
IEE	–	Initial Environmental Examination
MENR	–	Ministry of Ecology and Natural Resources
MFF	–	Multi-tranche Financial Facility
PIU	–	Project Implementation Unit
REA	–	Rapid Environmental Assessment
SEE	–	State Policy on Ecological Expertise
SNIP	–	Soviet Technical Norms and Rules
SPS	–	Safeguard Policy Statement
TA	–	Technical Assistance
UNESCO	–	United Nations Educational, Scientific and Cultural Organization

A. INTRODUCTION

1. The Government of Azerbaijan (GoA) has requested the Asian Development Bank (ADB) to provide funding to support AzerRoadServices (ARS) to improve road infrastructure in Azerbaijan.
2. Following on from the initial Road Network Development Program, the Second Road Network Development Program (this investment program) will continue to promote regional cooperation and integration, and widen access to social and economic opportunities via improved road infrastructure in Azerbaijan. The program will also strengthen the governments' capacity in strategic planning, project preparation and implementation, maintenance and governance in the road subsector.
3. The Program will be financed by ADB through a Multi-tranche Financial Facility (MFF). There will be at least three tranches associated with the Program. Under the MFF loan procedures of the ADB, implementation of environmental safeguards is to be achieved by environmental assessment of every project to be undertaken following the ADB's Safeguard Policy Statement June 2009 (SPS 2009).
4. The initial two projects (Tranches 1 and 2) of the MFF involve construction of a continuous 64 km section of a new four lane motorway between Alat and Masalli on the southern corridor. Environmental due diligence has been completed in respect of the initial two projects.
5. This Environmental Assessment and Review Framework (EARF) is applicable to all investments funded by this MFF, and particularly to projects included in subsequent tranches that have not yet been fully defined.

B. ASSESSMENT OF LEGAL FRAMEWORK AND INSTITUTIONAL CAPACITY

6. Environmental assessment of future projects will be undertaken with regard to complying with ADB and GoA policies, legislation, and requirements. This also includes complying with relevant international agreements.

1. Government of Azerbaijan Environmental Policies, Laws and Regulations

a. Laws, Regulations, and Policies

7. The important laws relevant to the proposed road sector project focusing on environmental impact assessment are:
 - (i) Law on the Protection of Environment, 1999 The Law of the Republic of Azerbaijan on the Protection of Environment (1999) establishes the legal, economic and social bases for environment protection.
 - (ii) The State Ecological Expertise (SEE): Mandates an EIA for infrastructure development projects.
 - (iii) Regulation of Environmental Impact Assessment (1996): This Regulation defines the project types requiring Environmental Assessment (EA), contents of the document on EA roles and, responsibilities of applicant and responsible state organization, procedures, public participation and complaints.
 - (iv) Azerbaijan Environmental and Safety Regulations: relevant national laws include:

- a. Azeri Law on Automobile Roads (2000)
- b. Soviet Technical Norms and Rules (SNIP) 2.05.02-85 Building Code & Regulations for Automobile Roads, Law on Environmental Protection – Ch 3
- c. The Law of the Republic of Azerbaijan on Sanitary and Epidemiological Safety, 1993 Section III: Responsibilities of State Bodies, Agencies, Companies... on the Provision of Sanitary and Epidemiological Safety
- d. Safety Regulations for Construction, Rehabilitation and Maintenance of Roads 1978
- e. SNIP III-4-80 Norms of Construction Safety
- f. Guidelines for Road Construction, Management and Design (2000)
- g. BCH 8-89 Regulations on Environmental Protection in Construction, Rehabilitation and Maintenance of Roads
- h. Sanitary Norms Ch 2.2.412.1.8.562-96 (1997)
- i. Regulation 514-1Q-98 Regulation on Industrial and Municipal Waste

8. Other relevant laws, legislation and policies approved by Government are summarized and presented in Table 1.

Table 1: Relevant Laws, Legislations, and Policies in Azerbaijan

Sl. No.	Law / Regulation / Policy	Date of Adoption
1.	Law of the Republic of Azerbaijan on “Industrial and municipal wastes”	30.07.1998
2.	Law project on “Making changes and supplements to Law of the Republic of Azerbaijan on industrial and municipal wastes”	
3.	President Decree on the application of Law of the Republic of Azerbaijan on “Industrial and municipal wastes”	26.10.1998
5.	Law of the Republic of Azerbaijan on “Principles of town-building”	11.07.1999
8.	President’s Order on “Extra measures for the issues associated to the international conventions and agreements on environment protection in which the Republic of Azerbaijan has joined”	30.03.2006
9.	National Program of the Republic of Azerbaijan on “Environmentally sustainable social-economic development”	18.02.2003
10.	On “Measures for providing the implementation of the commitments The Republic of Azerbaijan has adopted in accordance with the UNFCCC ratified by the Republic of Azerbaijan in January 10, 1995”	30.04.1997
11.	Law of the Republic of Azerbaijan on “Public awareness raising on environmental issues”	10.12.2002
12.	Law of the Republic of Azerbaijan on “Protection of environment”	08.07.1999
13.	Law of the Republic of Azerbaijan on “Obligatory ecological ensurance”	12.03.2002
14.	Law of The Republic of Azerbaijan on specially protected natural territories and sites	24.03.2000
16.	Law of the Republic of Azerbaijan on Protection of Atmospheric Air	21.03.2001
17.	President Decree on the application of Law of the Republic of Azerbaijan on “Protection of Atmospheric Air”	11.06.2001
18.	Law of the Republic of Azerbaijan on ‘Phyto-sanitary control”	21.05.2006
19.	President Decree on “Application of Law of the Republic of Azerbaijan on phyto-sanitary control”	06.02.2007
21.	State Program on “Social-economic development of regions”	
22.	National Program on “Reforestration and Forestration in Azerbaijan”	2003

Sl. No.	Law / Regulation / Policy	Date of Adoption
26.	Law on "Energy production"	01.02.1999
27.	Civil Code of the Republic of Azerbaijan	01.09.2000
28.	Law on "Environmental safety"	03.08.1999
29.	President order on "Ratification of the Complex Measures Plan on the improvement of ecological condition in the Republic of Azerbaijan for 2006–2010 years"	
30.	Assesment of impact on environment	1996

b. Environmental Assessment Process in Azerbaijan

9. Environmental assessment and review procedures in Azerbaijan, as stipulated in the SEE, do not include the categorization of projects. The project is either initially approved with few mitigation conditions, or the project must undergo a full Environmental Impact Assessment (EIA). If the activity is assessed by the EA to result in more than minor potential impacts, a full EIA is automatically required. Since categorization is absent under Azerbaijan environmental regulations, the ADB guidelines will be adopted for subproject categorization under the Investment Program.

2. ADB Environmental Safeguard Requirements and Policies

10. Environmental assessment will be carried out to ensure that potential adverse environmental impacts are addressed according to the ADB Safeguard Policy Statement, 2009 (SPS 2009).

11. The SPS 2009 consists of three policy components: (i) Environment Safeguards, (ii) Involuntary Resettlement Safeguards, and (iii) Indigenous People Safeguards. The objectives of Environment Safeguards are to ensure the environmental soundness and sustainability of projects and to support the integration of environmental considerations into the project decision-making process. To help achieve the desired outcomes, ADB adopts a set of specific safeguard requirements that need to be achieved during the processing and implementation of projects financed by ADB. The environmental safeguard principles are stated in the Safeguard Policy Statement, which will guide environmental assessment process of projects.

12. The SPS establishes the format for the presentation of the environmental assessment.

13. ADB categorizes projects into categories A, B, C, and FI according to the significance of likely impacts. The categorization criteria are as follow:

- (i) **Category A.** A proposed project is classified as category A if it is likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented. These impacts may affect an area larger than the sites or facilities subject to physical works. An environmental impact assessment is required.
- (ii) **Category B.** A proposed project is classified as category B if its potential adverse environmental impacts are less adverse than those of category A projects. These impacts are site-specific, few if any of them are irreversible, and in most cases mitigation measures can be designed more readily than for category A projects. An initial environmental examination is required.

- (iii) **Category C.** A proposed project is classified as category C if it is likely to have minimal or no adverse environmental impacts. No environmental assessment is required although environmental implications need to be reviewed.
- (iv) **Category FI.** A proposed project is classified as category FI if it involves investment of ADB funds to or through a Financial Intermediary.

14. Based on the Government's and ADB's environmental policies, the projects to be financed under the MFF will be subject to the following requirements:

- (i) A requirement for environmental assessment of each project depends on its potential impacts. Based on these potential impacts, and using ADB's Rapid Environmental Assessment Checklist (REA) Checklist, Attachment 3, each project will be assigned an environmental category. The Tranche is categorized based on the most sensitive component.
- (ii) For each Category A project, an EIA including an environmental management plan (EMP) is required. For each Category B project, an IEE including EMP is required.

3. Institutional Capacity

15. The principal national environmental agency charged with environmental protection responsibilities is the Ministry of Ecology and Natural Resources (MENR). This Ministry was established in 2001 to replace the former State Committee for the Environment, with an expanded mandate that includes geology, fisheries, and forests. MENR upholds all natural resources protection laws. The State Ecology Expertise (SEE) acts within this Ministry at the Program level in reviewing Environmental Impact Assessments (EIAs) of any developmental activities within the jurisdiction of Republic of Azerbaijan.

16. The major, even if indirect, role played in environment management by Government bodies other than MENR are the Ministry of Economic Development, Ministry of Agriculture (with its Committee for Land Improvement and Irrigation), Ministry of Fuel and Energy, Ministry of Health, Ministry of Education, Ministry of Interior, Ministry of Transport, and Ministry of Justice. The State Committee for Land and Mapping and State Committee for Architecture and Construction are also important. Each of these agencies has a unit (a department, division, center, or section) charged with the environmental dimension of their activities, attesting to a deliberate attempt by the Government to undertake environmental mainstreaming.

C. ANTICIPATED ENVIRONMENTAL IMPACTS

17. Potential environmental impacts of roads and highways projects may occur during preconstruction, construction and operational phases.

18. Preconstruction phase impacts are related to design decisions concerning the alignment and siting of facilities. Key potential impacts related to design may include:

- (i) Disturbance to ecologically sensitive areas
- (ii) Habitat fragmentation and barriers to wildlife
- (iii) Obstruction to rural connectivity and livelihoods
- (iv) Impacts on irrigation infrastructure

19. Other potential impacts during the design stage may include the siting of borrow pits, construction camps and asphalt plants etc, although these facilities may be decided during the construction phase. Nevertheless, the pre-construction phase is the time when the above potential impacts need to be reviewed within the context of a robust consideration of alternatives including public consultation, such that wherever possible impacts can be avoided through appropriate design and location of project components.

20. Most potential negative impacts may occur during the construction phase of the project. However, these will be temporary and can be mitigated to acceptable levels by carefully designed appropriate mitigation measures. Based on environmental studies and associated stakeholder consultations undertaken to date in respect of Tranche 1 and Tranche 2 projects the likely environmental and social impacts that could be expected for subsequent tranches are as follows:

21. Temporary Impacts:

- (i) Pollution of air (dust),
- (ii) Pollution of surface water bodies (suspended sediment from erosion of excavated areas, human effluent, spills of oil/petrol/hazardous substances used during construction)
- (iii) Pollution of groundwater human effluent, spills of oil/petrol/hazardous substances used during construction
- (iv) Noise from powered mechanical equipment
- (v) Traffic disturbance due to diversions and material transport
- (vi) Extraction, processing and haulage of huge quantities of fill material will have impacts that need to be managed
- (vii) Disruption of pedestrian access, non-motorized and agricultural vehicles and livestock
- (viii) Contractors yard and work camps may be further sources of potential environmental and socio-economic impact
- (ix) Solid and liquid waste produced during construction (inactive – concrete and rubble, and active – paint, oil, batteries, bitumen)

22. The above impacts are typical of road construction activities and will be managed through implementation of standard mitigation measures and internationally recognized good construction practice. In addition, consultations with affected communities throughout project implementation are proposed to ensure community concerns are properly addressed. This will be supported by a robust grievance redress mechanism.

23. Permanent Impacts could include:

- (i) Ground disturbance from earthworks and loss of topsoil
- (ii) Landscape modification associated with the operation and/or opening of new borrow pits and river gravel extraction
- (iii) Loss of biodiversity especially where roads are aligned through sensitive ecological areas including protected areas and internationally recognized sites of ecological importance
- (iv) Deforestation
- (v) Changes in hydrological regime of water bodies
- (vi) Modification of the existing irrigation/drainage network

- (vii) Loss of agricultural land from road alignment and haul roads used during construction
24. Typical mitigation measures used to reduce such impacts to acceptable levels include:
- (i) Topsoil to be stockpiled, stored and reused for rehabilitation and landscaping
 - (ii) Contractors required to source construction materials from existing or new borrow pits and will be required to obtain and adhere to all necessary licenses and environmental management requirements associated with the operation and rehabilitation of such areas.
 - (iii) Where and when necessary, project designs to include a range of specific mitigation measures to minimize the impacts on sensitive ecological areas using the principal of avoidance first, and when avoidance is not possible, minimize, mitigate and/or offset adverse impacts and enhance positive impacts by means of environmental planning and management. Such mitigation measures will be devised through consultation with government and non- government organizations (NGOs) associated with biodiversity conservation. In addition, contractors will be required to exercise careful management and control during construction through deployment of a full time, qualified and experienced environmental specialist with a specific mandate and authority to oversee construction activities in the sensitive areas so as to ensure that all mitigation measures are implemented effectively.
 - (iv) Project designs will include incorporation of drainage channels, culverts and bridges to maintain existing irrigation and drainage flows and rural access ways. Such designs will be developed in consultation with communities during detailed design and construction.
25. Potential operational impacts could include the following;
- (i) Disruption of rural connectivity
 - (ii) Run-off of small volumes of oils or fuels that could potentially discharge into ecologically sensitive areas
 - (iii) Permanent habitat fragmentation
 - (iv) Noise vibration and visual disturbance
 - (v) Air pollution from vehicular emissions
26. Typical mitigation measures for operational impacts may include:
- (i) Project design to ensure existing rural connectivity is maintained through inclusion of bridges and underpasses where necessary.
 - (ii) Rain water treatment and collection run-off system in the vicinity of sensitive ecological areas
 - (iii) Inclusion of “wildlife friendly” culverts and animal underpasses at strategic locations and Appropriate planting and landscaping on road margins and embankments to reduce effects of fragmentation
 - (iv) Installation of permanent noise barriers where road alignments pass close to sensitive receptors such as residential areas, schools and hospitals.
27. An EMP will be prepared as part of the IEE/EIA required for each subsequent tranche/project. The EMP describes all the mitigation measures including technical design requirements that will be implemented to reduce the environmental impacts to acceptable

levels. In addition, the Contractor will be required to prepare a site specific EMP based on the general EMP prepared for the IEE/EIA, and implement it effectively. Implementation of the EMP will be monitored by ARS and ADB throughout the project and where non-compliance is identified the Contractor will be required to take corrective action.

D. ENVIRONMENTAL ASSESSMENT FOR SUBPROJECTS AND/OR COMPONENTS

28. The EARF outlines the policies, procedures, and institutional requirements for preparing subsequent subprojects. The Executing Agency (EA), AzerRoadServices (ARS), is responsible for preparing the required environmental assessments and obtaining ADB concurrence prior to implementation. These approvals must be in place prior to finalization of contracts and commencement of work.

1. Sub-project Selection Criteria

29. The following general criteria will be adopted for selection of the projects included in the MFF:

- (i) Subprojects will not be located in strict nature reserves, i.e., national parks, wildlife sanctuaries or wetlands, unless unavoidable for technical reasons (see attachment 1 for list of protected areas).
- (ii) Monuments of cultural or historical importance will be avoided. Care should be taken in working around such area with additional specific mitigation measures.

30. All subprojects will be subject to environmental assessment process (IEE or EIA). Environmental assessment is a generic term used to describe a process of environmental analysis and planning to address the environmental impacts and risks associated with a project.

2. Environmental Screening and Categorization

31. The Safeguard Policy Statement (2009) requires screening and categorisation of projects to determine the level of environmental assessment study required. The significance of a project's environmental impacts and risks determines the environmental categorization of the project (see Section B.2).

32. All subprojects to be included in the MFF will be screened to determine its environmental category based on the ADB's Rapid Environmental Assessment (REA) Checklist to be completed for each project. A template of ADB's Rapid Environmental Assessment Checklist for Roads and Highways is provided in Attachment 3.

33. ADB categorizes road projects into two categories A and B. Roads upgrading and rehabilitation projects are generally classified as B if they do not impact on sensitive ecological areas. New roads are generally classified as A.

3. Environmental Assessment and Environmental Management Plan Requirements

34. Following confirmation of project categorization by ADB, ARS will undertake, or arrange for consultants to undertake the appropriate level of environmental assessment (IEE for category B or EIA for category A). The IEE or EIA will commence at an early stage in the project preparation process and involve identification of potential direct, indirect, cumulative and induced environmental impacts on and risks to physical, biological, socioeconomic, and physical

cultural resources, and determine their significance and scope, in consultation with stakeholders, including affected people and concerned NGOs.

35. For projects with potentially significant adverse impacts that are diverse, irreversible, or unprecedented, ARS will examine alternatives to the project's location, design, technology, and components that would avoid, and, if avoidance is not possible, minimize adverse environmental impacts and risks. The rationale for selecting the particular project location, design, technology, and components will be properly documented with various alternatives considered including the "no action" alternative.

36. Impacts and risks will be analysed in the context of each project area that encompasses:

- (i) the primary project site(s) and related facilities;
- (ii) associated facilities that are not funded as part of the Program, and whose viability and existence depend exclusively on the project and whose goods or services are essential for successful operation of the project;
- (iii) areas and communities potentially affected by cumulative impacts of the Program, and other sources of similar impacts in the geographical area; and
- (iv) areas and communities potentially affected by impacts from unplanned but predictable developments caused by the project that may occur later or at a different location.

37. Environmental impacts and risks will be analysed for all relevant stages of the project cycle, including preconstruction, construction, operations, decommissioning, and post-closure activities such as rehabilitation or restoration.

38. ARS will prepare an EMP that addresses the potential impacts and risks identified by the environmental assessment. The EMP will include the proposed mitigation measures, environmental monitoring and reporting requirements, emergency response procedures, related institutional or organizational arrangements, capacity development and training measures, implementation schedule, cost estimates, and performance indicators.

39. ADB requires that the environmental assessment and presentation of the EMP is to follow the report structure outlined in Appendix 1 of the Safeguard Policy Statement. This outline is provided in Attachment 2.

40. ARS should ensure that ADB be given access to undertake environmental due diligence for all projects under the MFF. However, ARS has the main responsibility for undertaking environmental due diligence and monitoring the implementation of environmental mitigation measures for all projects. Due diligence activities along with monitoring reports on implementation of the EMP need to be documented systematically.

41. Environmental monitoring will consist of routine systematic checking that the environmental management measures identified in the EIA and EMP have been implemented effectively during each stage of the project (see Attachment 2).

E. CONSULTATION, INFORMATION DISCLOSURE, AND GRIEVANCES REDRESS MECHANISM

42. IEEs and EIAs prepared for additional sub-projects will be translated into local language(s) and made available to the public, since English is not easily understood in AZE and

the communities will not be able to understand the environmental impacts and mitigation measures.

1. Public Consultation

43. For any subproject subject to the EARF and where an EIA/IEE is required, formal and documented public consultation and information disclosure will be required in accordance with the ADB and government's consultation and information disclosure requirements. This will be done at an early stage during EIA/IEE preparation and is to inform stakeholders of the project components and to encourage input to identify possibly overlooked environmental issues. The information disclosed and feedback provided at the consultation sessions will be summarized, attendance recorded, and the document attached as an annex to the EIA/IEE.

44. For each of the subprojects ARS will organize consultations with project affected people and other stakeholders. Consultation will be based on the following principles:

- (i) Early start in the project preparation stage and continuation throughout the project cycle;
- (ii) Timely disclosure of relevant information in a comprehensible and readily accessible to affected people format;
- (iii) Ensuring the absence of intimidation or coercion during public consultation;
- (iv) Gender inclusive and responsive with focus on disadvantaged and vulnerable groups, and
- (v) Enabling the integration of all relevant views of affected people and stakeholders into decision-making.

45. Invited attendees at EIA/IEE consultations will include government agencies and district authorities, community representatives, as well as NGOs. At least two week notice of consultation meetings will be given.

2. Information Disclosure

46. ARS and ADB agree that in disclosing environmental information for each of the projects to the public that:

- (i) ARS is responsible for ensuring that all environmental assessment documentation, including the environmental due diligence and monitoring reports, are properly and systematically kept as part of an ARS project specific record;
- (ii) all environmental documents are subject to public disclosure, and therefore be made available to public;
- (iii) For Category A projects, the draft EIAs will be disclosed at ADB's website 120 days prior to approval of the Periodic Finance Request for that particular tranche;
- (iv) For Category B projects the IEE has to be disclosed on ADB's website upon receipt; and
- (v) ARS will ensure that meaningful public consultations, particularly with project affected persons, are undertaken during the EIA/IEE preparation process for the future projects.

3. **Grievance Redress Mechanism**

47. In order to receive and facilitate the resolution of affected peoples' concerns, complaints, and grievances about the project's environmental performance an Environmental Grievance Redress Mechanism (GRM) will be established for each of the projects. Whilst the GRM is intended for addressing environment related grievances, in reality there is considerable cross over between environmental and social issues in relation to construction activities. Thus, it is recommended that the GRM established for environmental issues is also used to address social issues arising during project implementation especially where such issues directly involve construction activities (eg access for livestock across the ROW; damage to crops or private infrastructure etc.).

48. The GRM will be used for addressing any complaints that arise during the implementation of projects. In addition, the GRM will include a proactive component whereby at the commencement of construction of each subproject (prior to mobilization) the community will be formally advised of project implementation details by ARS, the design and supervision consultant (DSC) and the contractor (designs, scheduled activities, access constraints etc) so that all necessary project information is communicated effectively to the community and their immediate concerns can be addressed. This proactive approach with communities will be pursued throughout the implementation of each project.

49. The GRM will address affected people's concerns and complaints proactively and promptly, using an understandable and transparent process that is gender responsive, culturally appropriate, and readily accessible to all segments of the affected people at no costs and without retribution. The mechanism will not impede access to the Azerbaijan's judicial or administrative remedies.

4. **GRM Establishment and Procedure**

50. The GRM will be established at each project location as described below:

51. Prior to the contractor's mobilization to the project site ARS will assist affected communities establish a Grievance Redress Committee (GRC) and identify local representatives to act as Grievance Focal Points (GFP) for that community.

52. The **Grievance Redress Committee** (GRC) will comprise representatives from local authorities, affected parties, and other well-reputed persons from health or education sectors, as mutually agreed with the local authorities and affected persons. It will also comprise the Contractor's Environmental Specialist, DSC's Environment Specialist and ARS PIU Safeguards/Environmental specialist. The function of the GRC is to address the project related grievances of the affected parties that are unable to be resolved satisfactorily through the initial stages of the GRM procedure.

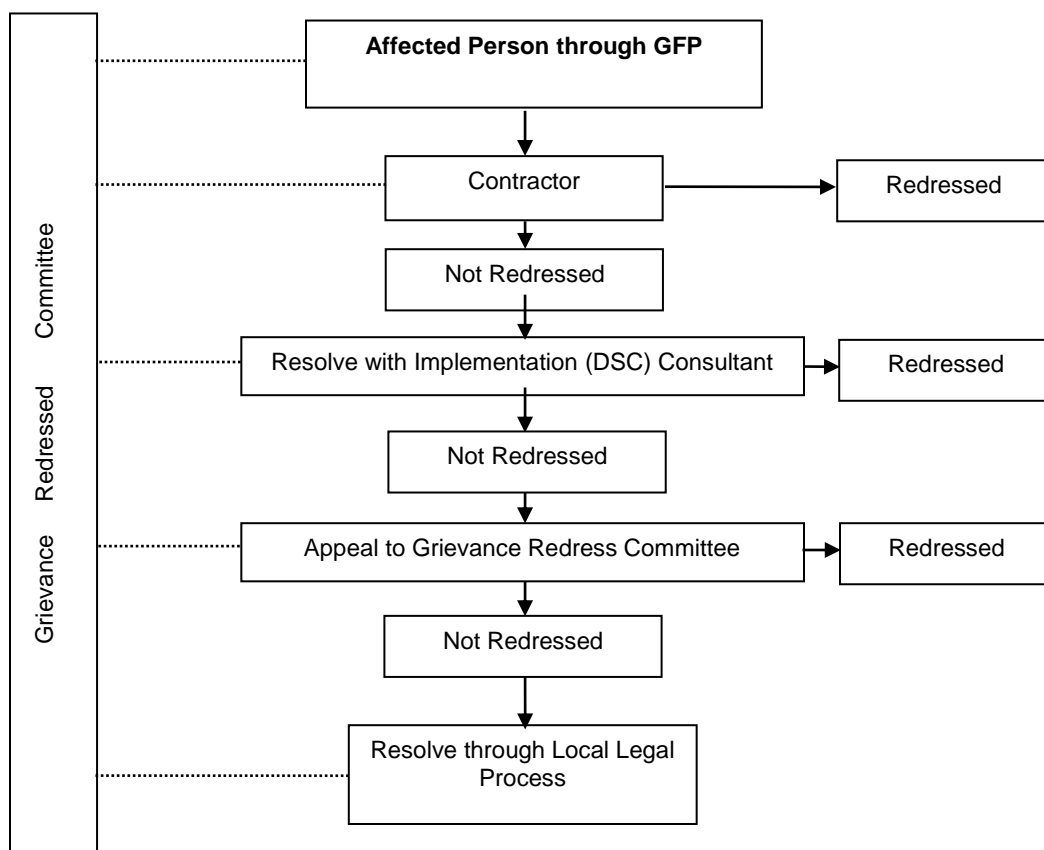
53. The **Grievance Focal Points** (GFPs) are designated personnel from within the community who will be responsible for i) acting as community representatives in formal meetings between the project team (contractor, DSC, ARS project implementation unit [PIU]) and the local community he/she represents and ii) communicating community members' grievances and concerns to the contractor during project implementation. The number of GFPs to be identified for each project will depend on the number and distribution of affected communities.

54. A pre-mobilization public consultation meeting will be convened by ARS and attended by GFPs, contractor, DSC, ARS PIU representative and other interested parties (e.g. District level representatives, NGOs). The objectives of the meeting will be as follows:

- (i) Introduction of key personnel of each stakeholder including roles and responsibilities,
- (ii) Presentation of project information of immediate concern to the communities by the contractor (timing and location of specific construction activities, design issues, access constraints etc.) This will include a brief summary of the EMP - its purpose and implementation arrangements;
- (iii) Establishment and clarification of the GRM to be implemented during project implementation including routine (proactive) public relations activities proposed by the project team (contractor, DSC, ARS PIU) to ensure communities are continually advised of project progress and associated constraints throughout project implementation;
- (iv) Identification of members of the Grievance Redress Committee (GRC)
- (v) Elicit and address the immediate concerns of the community based on information provided above

55. Following the pre-mobilization public consultation meeting, environmental complaints associated with the construction activity will be routinely handled through the GRM as explained below and shown schematically in Figure 1:

- (i) Individuals will lodge their environmental complaint/grievance with their respective community's nominated GFP.
- (ii) The GFP will bring the individual's complaint to the attention of the Contractor.
- (iii) The Contractor will record the complaint in the onsite Environmental Complaints Register (ECR) in the presence of the GFP.
- (iv) The GFP will discuss the complaint with the Contractor and have it resolved;
- (v) If the Contractor does not resolve the complaint within one week, then the GFP will bring the complaint to the attention of the DSC's Environmental Specialist. The DSC's Environment Specialist will then be responsible for coordinating with the Contractor in solving the issue.
- (vi) If the Complaint is not resolved within 2 weeks the GFP will present the complaint to the Grievance Redress Committee (GRC).
- (vii) The GRC will have to resolve the complaint within a period of 2 weeks and the resolved complaint will have to be communicated back to the community. The Contractor will then record the complaint as resolved and closed in the Environmental Complaints Register.
- (viii) Should the complaint not be resolved through the GRC, the issue will be adjudicated through local legal processes.
- (ix) In parallel to the ECR placed with the Contractor, each GFP will maintain a record of the complaints received and will follow up on their rapid resolution.
- (x) ARS will also keep track of the status of all complaints through the Monthly Environmental Monitoring Report submitted by the Contractor to the DSC and will ensure that they are resolved in a timely manner.

Figure 1: Grievance Redress Mechanism

F. INSTITUTIONAL ARRANGEMENT AND RESPONSIBILITIES

56. The main institutions that will be involved in environmental management activities are ARS the program executing agency (EA), the DSC, Contractor and line agencies including Ministry of Ecology and Natural Resources.

57. ARS has overall responsibility for all aspects of the investment program. A Project Implementation Unit (PIU) established within ARS will be responsible for the day to day management of the technical aspects of the program. Within the ARS organization structure there is one Safeguards Specialist who is attached to the PIU. The one Safeguards Specialist is responsible for management of the environmental and social aspects associated with development of all donor funded road sector projects for which ARS is the responsible EA.

58. In respect of ADB's requirements for implementation of the environmental safeguards component of the Second Road Network Development Project, the responsibilities of the EA are to:

- (i) Prepare environmental screening (REA) checklist and classify projects in consultation with MENR and other departments.
- (ii) Based on the environmental classification of projects, prepare terms of reference to conduct EIA/IEE studies.
- (iii) Hire an environmental consultant to prepare EIA/IEE reports including EMP for public disclosure.
- (iv) Ensure that an EIA/IEE is prepared in compliance with the requirements of the Government and ADB, and that adequate consultation with affected people is undertaken in accordance with ADB requirements.
- (v) Undertake review of the EIA/IEE and EMP reports to ensure their compliance with the requirements of the Government and ADB.
- (vi) Obtain necessary permits and/or clearance, as required, from MENR and other relevant government agencies, ensuring that all necessary regulatory clearances are obtained before commencing any civil work on the relevant sections.
- (vii) Submit to ADB the EIA/IEE, and EMP reports and other documents, as necessary.
- (viii) Ensure that any EMP including relevant mitigation measures needing to be incorporated during the construction stage by the contractor are included in the bidding documents.
- (ix) Ensure that contractors have access to the EIA/IEE and EMP reports of the projects.
- (x) Ensure that contractors understand their responsibilities to mitigate environmental problems associated with their construction activities and train their staff in implementation of the EMP.
- (xi) Ensure and monitor that an EMP including an environmental monitoring plan will be properly implemented.
- (xii) Ensure that the Contractor submits monthly Environmental Monitoring Reports to the supervision consultant.
- (xiii) Submit to ADB six monthly Environmental Monitoring Reports.
- (xiv) In case unpredicted environmental impacts occur during the project implementation stage, prepare and implement as necessary an environmental emergency program in consultation with MENR, any other relevant government agencies, and ADB.

59. It is considered that with only one safeguard specialist covering both environmental and social safeguards, ARS has insufficient capacity to meet ADB's requirements for implementing environmental safeguards for the Second Road Network Development Program.

1. PIU Capacity Building Requirements

60. The current PIU Safeguards Specialist has qualifications in mathematics and has approximately 6 years experience, primarily in social safeguards (resettlement) activities. The Safeguard Specialist has received some on-the-job training in social and environmental safeguards associated with implementation of donor funded projects (namely World Bank and European Union). However, it is understood that such training has been somewhat ad-hoc, and unsystematic such that there are significant gaps in the Safeguard Specialist's technical knowledge and understanding of environmental issues.

61. It is clear that the PIU (including ARS overall) does not currently have the necessary in-house capacity to effectively undertake its environmental safeguards responsibilities for the Second Road Network Development Program. This is a concern that needs to be addressed, particularly since the Program involves a new road alignment that passes through sensitive wetlands areas (Tranche 2).

62. It is proposed that in addition to provision for consultants to undertake the necessary EIA/IEE for subsequent tranches, the MFF loan agreement includes provision for capacity strengthening of the ARS PIU in environmental management. It is recommended that ARS recruit an appropriately qualified and experienced national environmental specialist as additional PIU staff to assist the current Safeguard Specialist undertake the PIU's environmental management responsibilities for the Second Road Network Development Project.

63. Furthermore, it is recommended that as soon as the proposed environmental specialist is recruited to the PIU, ADB provides the PIU (including both safeguards specialists) with in-house training on ADB environmental safeguards requirements. Preparation and delivery of such training could be included as part of the TOR for the International Environment Specialist of the Tranche 1 Supervision Consultant's Team. Alternatively such training could be coordinated with EAs of other sectors in Azerbaijan with which ADB is involved.

64. The indicative cost for a local environmental specialist to be recruited as staff for the PIU would be around USD34,000 per year.

2. ADB Responsibilities for Environmental Management

65. ADBs responsibilities in regard to implementation of environmental safeguards requirements for the Second Road Network Development Program are as follows:

- (i) Review EIA/IEE and Environmental Monitoring reports and the rapid environmental assessment (REA) checklist as a basis to issue approval for the project.
- (ii) Assign Category to new projects (Tranches) based on REA Checklist.
- (iii) Undertake periodic monitoring of the EMP implementation and due diligence as part of an overall project review mission.
- (iv) If required, provide advice to ARS in carrying out its responsibilities to implement the EMP for the project.

G. MONITORING AND REPORTING

66. Throughout implementation of the MFF, the Government and ADB will monitor the implementation progress and impact of projects. Overall, the EMP for each project will be implemented by the PIU within ARS. In consultation with ARS and ADB, the PIU will establish a system for preparing six monthly reports on environmental performance monitoring, issues resolution, and corrective action plans.

67. The supervision consultants will be responsible for monitoring the implementation of the EMP by the contractors and the PIU will be responsible for overall management and coordination of the EMP. Progress on the preparation and implementation of an EMP will be included in the periodic project progress reports. Specific monitoring activities defined in the EIAs/IEEs and EMPs will be carried out by the contractors and supervised by the supervision consultant's Environmental Specialists (international and national) and monitored by the PIU's Safeguards team. ARS will submit six monthly Environmental Monitoring Reports on EMPs implementation for ADB's review.

68. In general, the overall extent of monitoring activities, including their scope and periodicity, should be commensurate with the project's risks and impacts. ARS is required to implement safeguard measures and relevant safeguard plans, as provided in the legal agreements. At a minimum, ADB will require ARS to:

- (i) establish and maintain procedures to monitor the progress of implementation of EMPs;
- (ii) verify the compliance with environmental measures and their progress toward intended outcomes;
- (iii) document monitoring results and identify necessary corrective and preventive actions in the periodic monitoring reports;
- (iv) follow up on these actions to ensure progress toward the desired outcomes;
- (v) submit bi-annual Environmental Monitoring reports on compliance with the EMP.

69. ADB will carry out the following monitoring actions to supervise project implementation:

- (i) conduct periodic site visits for projects with adverse environmental or social impacts;
- (ii) conduct supervision missions with detailed review by ADB's safeguard specialists/officers or consultants for projects with significant adverse social or environmental impacts;
- (iii) review the bi-annual monitoring reports submitted by ARS to ensure that adverse impacts and risks are mitigated as planned and as agreed with ADB;
- (iv) work with ARS to rectify to the extent possible any failures to comply with their safeguard commitments, as covenanted in the legal agreements, and exercise remedies to re-establish compliance as appropriate; and
- (v) prepare project completion reports that assesses whether the objective and desired outcomes of the EMPs have been achieved, taking into account the baseline conditions and the results of monitoring.

70. The PIU will review the EIA or IEE and corresponding EMP for each project to ensure that mitigation measures and monitoring plans proposed in that document are in compliance with ADB's and national requirements. According to the reports and reviews during its missions, ADB, in consultation with the Government, will confirm compliance. For this purpose, the PIU

will provide ADB with access to information on any projects. The information on implementation of an EMP, as well as that on environmental and social safeguard compliance, will be systematically documented and reported to ADB as part of the regular progress reports.

71. Monitoring plans will be prepared for each project and will be part of each EIA/IEE.

- (i) An Environmental Specialist in ARS PIU will be responsible for reviewing and updating the monitoring program to ensure that it meets the intention of the EMP and for carrying it out.
- (ii) The Environmental Specialist will prepare a bi-annual Environmental Monitoring Report on the subproject EMP implementation and submit it to ADB. The report will outline where work has not complied with the EMP and what steps have been taken to rectify it, format of the Monitoring Report is attached as Attachment 4.
- (iii) After one year the Environmental Specialist will arrange to review the monitoring program and make any adjustments to it as required. The Environmental Specialist will inform the ADB and ARS of any changes that are recommended to be made prior to implementing the changes.

ATTACHMENT 1: LIST AND MAP OF PROTECTED AREAS OF AZERBAIJAN

List of the Specially Protected Nature Areas of the Republic of Azerbaijan

National Parks

No	Name of the SPNA	Administrative Territory	Area	Date of Establishment
1	Zangazur NP named after Academician H.Aliyev	Nakhichevan AR	42,797,4	2003
2	Shirvan NP	Garadagh district of Baku city, Salyan and Neftchala regions	54,373,5	2003
3	Aghgol NP	Aghjabadi and Beylagan regions	17,924	2003
4	Hirkan NP	Lankaran and Astara regions	40,358	2004
5	Altiaghaj NP	Khizi and Siyazan regions	11,035	2004
6	Absheron NP	Azizbayov district of Baku city	783	2005
7	Shahdag NP	Guba, Gusar, Ismayilly, Gabala, Oghuz and Shamakhy regions	130,508,1	2006
8	Goygol NP	Goygol, Dashkasan and Goranboy regions	12,755	2008

State Nature Reserves

No	Name of the SPNA	Administrative Territory	Area	Date of Establishment
1	Gizilaghaj SNR	Lankaran region	88,360	1929
2	Zagatala SNR	Zagatala and Balakan regions	47,349	1929
3	Turyanchay SNR	Aghdash, Oghuz, Yevlakh and Gabala regions	22,488	1958
4	Shirvan SNR	Salyan and Neftchala regions	6,232	1969
5	Basitchay SNR	Zangilan region	107	1974
6	Garayazi SNR	Gazakh region	9,658	1978
7	Ilisu SNR	Gakh region	17,381,6	1987
8	Garagol SNR	Lachin region	240	1987
9	Eldar shami SNR	Samukh region	1,686	2004
10	Mud volcanoes SNR	Baku and Absheron peninsula	20,000	2007
11	Korchay SNR	Goranboy region	4,833,6	2008

State Nature Sanctuaries

No	Name of the SPNA	Administrative Territory	Area	Date of Establishment
1	Lachin SNS	Lachin region	20,000	1961
2	Korchay SNS	Goygol and Goranboy regions	15,000	1961
3	Bandovan SNS	Salyan region and Garadagh district	4,930	1961
4	Shaki SNS	Shaki region	10,350	1964
5	Gusar SNS	Gusar region	15,000	1964
6	Shamkir SNS	Shamkir region	10,000	1964
7	Gil island SNS	Gil island	400	1964
8	Garayazy-Aghstafa SNS	Aghstafa region	10,000	1964
9	Barda SNS	Barda and Aghdam regions	7,500	1966
10	Zuvand SNS	Lerik, Yardimly regions	15,000	1969
11	Ordubad SNS	Ordubad region	27,869	1969

№	Name of the SPNA	Administrative Territory	Area	Date of Establishment
12	Ismayilli SNS	Ismayilly and Gabala region	23,438	1969
13	Qubadlı SNS	Qubadlı, Lachin region	20,000	1969
14	Lesser Gizilaghaj SNS	Lankaran region	10,700	1978
15	Dashaltı SNS	Shusha region	450	1981
16	Qızılja SNS	Gedebey region	5,135	1984
17	Arazboyu SNS	Zangilan region	2,200	1993
18	Gabala SNS	Gabala region	39,700	1993
19	Gakh SNS	Gakh region	36,836	2003
20	Hirkan SNS	Lankaran and Astara regions	1,553	2005
21	Arazboyu SNS	Nakhichevan AR	9,118	2005
22	Zagatala SNS	Zagatala and Balakan regions	6,557	2008
23	Arpachay SNS	Nakhichevan AR , Sharur region	68,911	2009
24	Rvarud SNS	Lerik region	510	2009

Source: Ministry of Ecology and Natural Resources of Azerbaijan Republic
<http://www.eco.gov.az/en/b-xm-tb.php>.

ATTACHMENT 2: FORMAT AND CONTENT OF IEE/EIA

This outline is part of the Safeguard Requirements 1. An environmental assessment report is required for all environment category A and B projects. Its level of detail and comprehensiveness is commensurate with the significance of potential environmental impacts and risks. A typical EIA report contains the following major elements, and an IEE may have a narrower scope depending on the nature of the project. The substantive aspects of this outline will guide the preparation of environmental impact assessment reports, although not necessarily in the order shown.

A. Executive Summary

This section describes concisely the critical facts, significant findings, and recommended actions.

B. Policy, Legal, and Administrative Framework

This section discusses the national and local legal and institutional framework within which the environmental assessment is carried out. It also identifies project-relevant international environmental agreements to which the country is a party.

C. Description of the Project

This section describes the proposed project; its major components; and its geographic, ecological, social, and temporal context, including any associated facility required by and for the project (for example, access roads, power plants, water supply, quarries and borrow pits, and spoil disposal). It normally includes drawings and maps showing the project's layout and components, the project site, and the project's area of influence.

D. Description of the Environment (Baseline Data)

This section describes relevant physical, biological, and socioeconomic conditions within the study area. It also looks at current and proposed development activities within the project's area of influence, including those not directly connected to the project. It indicates the accuracy, reliability, and sources of the data.

E. Anticipated Environmental Impacts and Mitigation Measures

This section predicts and assesses the project's likely positive and negative direct and indirect impacts to physical, biological, socioeconomic (including occupational health and safety, community health and safety, vulnerable groups and gender issues, and impacts on livelihoods through environmental media [Appendix 2, para. 6]), and physical cultural resources in the project's area of influence, in quantitative terms to the extent possible; identifies mitigation measures and any residual negative impacts that cannot be mitigated; explores opportunities for enhancement; identifies and estimates the extent and quality of available data, key data gaps, and uncertainties associated with predictions and specifies topics that do not require further attention; and examines global, transboundary, and cumulative impacts as appropriate.

F. Analysis of Alternatives

This section examines alternatives to the proposed project site, technology, design, and operation—including the no project alternative—in terms of their potential environmental impacts; the feasibility of mitigating these impacts; their capital and recurrent costs; their suitability under local conditions; and their institutional, training, and monitoring requirements. It also states the basis for selecting the particular project design proposed and, justifies recommended emission levels and approaches to pollution prevention and abatement.

G. Information Disclosure, Consultation, and Participation

This section:

- (i) describes the process undertaken during project design and preparation for engaging stakeholders, including information disclosure and consultation with affected people and other stakeholders;
- (ii) summarizes comments and concerns received from affected people and other stakeholders and how these comments have been addressed in project design and mitigation measures, with special attention paid to the needs and concerns of vulnerable groups, including women, the poor, and Indigenous Peoples; and
- (iii) describes the planned information disclosure measures (including the type of information to be disseminated and the method of dissemination) and the process for carrying out consultation with affected people and facilitating their participation during project implementation.

H. Grievance Redress Mechanism

This section describes the grievance redress framework (both informal and formal channels), setting out the time frame and mechanisms for resolving complaints about environmental performance.

I. Environmental Management Plan

This section deals with the set of mitigation and management measures to be taken during project implementation to avoid, reduce, mitigate, or compensate for adverse environmental impacts (in that order of priority). It may include multiple management plans and actions. It includes the following key components (with the level of detail commensurate with the project's impacts and risks):

- (i) Mitigation:
 - a. identifies and summarizes anticipated significant adverse environmental impacts and risks;
 - b. describes each mitigation measure with technical details, including the type of impact to which it relates and the conditions under which it is required (for instance, continuously or in the event of contingencies), together with designs, equipment descriptions, and operating procedures, as appropriate; and
 - c. provides links to any other mitigation plans (for example, for involuntary resettlement, Indigenous Peoples, or emergency response) required for the project.

- (ii) Monitoring:
 - a. describes monitoring measures with technical details, including parameters to be measured, methods to be used, sampling locations, frequency of measurements, detection limits and definition of thresholds that will signal the need for corrective actions; and
 - b. describes monitoring and reporting procedures to ensure early detection of conditions that necessitate particular mitigation measures and document the progress and results of mitigation.
- (iii) Implementation arrangements:
 - a. specifies the implementation schedule showing phasing and coordination with overall project implementation;
 - b. describes institutional or organizational arrangements, namely, who is responsible for carrying out the mitigation and monitoring measures, which may include one or more of the following additional topics to strengthen environmental management capability: technical assistance programs, training programs, procurement of equipment and supplies related to environmental management and monitoring, and organizational changes; and
 - c. estimates capital and recurrent costs and describes sources of funds for implementing the environmental management plan.
- (iv) Performance indicators: describes the desired outcomes as measurable events to the extent possible, such as performance indicators, targets, or acceptance criteria that can be tracked over defined time periods.

J. Conclusion and Recommendation

This section provides the conclusions drawn from the assessment and provides recommendations.

ATTACHMENT 3: REA CHECKLIST

Rapid Environmental Assessment (REA) Checklist

ROADS AND HIGHWAYS

Instructions:

- ☐ This checklist is to be prepared to support the environmental classification of a project. It is to be attached to the environmental categorization form that is to be prepared and submitted to the Chief Compliance Officer of the Regional and Sustainable Development Department.
- ☐ This checklist is to be completed with the assistance of an Environment Specialist in a Regional Department.
- ☐ This checklist focuses on environmental issues and concerns. To ensure that social dimensions are adequately considered, refer also to ADB checklists and handbooks on (i) involuntary resettlement, (ii) indigenous peoples planning, (iii) poverty reduction, (iv) participation, and (v) gender and development.
- ☐ Answer the questions assuming the "without mitigation" case. The purpose is to identify potential impacts. Use the "remarks" section to discuss any anticipated mitigation measures.

Country/Project Title:

Sector Division:

SCREENING QUESTIONS	Yes	No	REMARKS
A. Project Siting			
Is the Project area adjacent to or within any of the following environmentally sensitive areas?			
▪ Cultural heritage site	<input type="checkbox"/>	<input type="checkbox"/>	
▪ Protected Area	<input type="checkbox"/>	<input type="checkbox"/>	
▪ Wetland	<input type="checkbox"/>	<input type="checkbox"/>	
▪ Mangrove	<input type="checkbox"/>	<input type="checkbox"/>	
▪ Estuarine	<input type="checkbox"/>	<input type="checkbox"/>	
▪ Buffer zone of protected area	<input type="checkbox"/>	<input type="checkbox"/>	
▪ Special area for protecting biodiversity	<input type="checkbox"/>	<input type="checkbox"/>	
B. Potential Environmental Impacts			
Will the Project cause...			
▪ encroachment on historical/cultural areas; disfiguration of landscape by road embankments, cuts, fills, and quarries?	<input type="checkbox"/>	<input type="checkbox"/>	

SCREENING QUESTIONS	Yes	No	REMARKS
▪ encroachment on precious ecology (e.g. sensitive or protected areas)?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ alteration of surface water hydrology of waterways crossed by roads, resulting in increased sediment in streams affected by increased soil erosion at construction site?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ deterioration of surface water quality due to silt runoff and sanitary wastes from worker-based camps and chemicals used in construction?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ increased local air pollution due to rock crushing, cutting and filling works, and chemicals from asphalt processing?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ noise and vibration due to blasting and other civil works? ▪ dislocation or involuntary resettlement of people	<input type="checkbox"/>	<input type="checkbox"/>	
▪ other social concerns relating to inconveniences in living conditions in the project areas that may trigger cases of upper respiratory problems and stress?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ hazardous driving conditions where construction interferes with pre-existing roads?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ poor sanitation and solid waste disposal in construction camps and work sites, and possible transmission of communicable diseases from workers to local populations?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ creation of temporary breeding habitats for mosquito vectors of disease?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ dislocation and compulsory resettlement of people living in right-of-way?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ accident risks associated with increased vehicular traffic, leading to accidental spills of toxic materials and loss of life?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ increased noise and air pollution resulting from traffic volume?	<input type="checkbox"/>	<input type="checkbox"/>	
▪ increased risk of water pollution from oil, grease and fuel spills, and other materials from vehicles using the road?	<input type="checkbox"/>	<input type="checkbox"/>	

Climate Change and Disaster Risk Questions The following questions are not for environmental categorization. They are included in this checklist to help identify potential climate and disaster risks.	Yes	No	Remarks
▪ Is the Project area subject to hazards such as earthquakes, floods, landslides, tropical cyclone winds, storm surges, tsunami or volcanic eruptions and climate changes (see Appendix I)?			
▪ Could changes in precipitation, temperature, salinity, or extreme events over the Project lifespan affect its sustainability or cost?			

<ul style="list-style-type: none"> ▪ Are there any demographic or socio-economic aspects of the Project area that are already vulnerable (e.g. high incidence of marginalized populations, rural-urban migrants, illegal settlements, ethnic minorities, women or children)? 			
<ul style="list-style-type: none"> ▪ Could the Project potentially increase the climate or disaster vulnerability of the surrounding area (e.g., increasing traffic or housing in areas that will be more prone to flooding, by encouraging settlement in earthquake zones)? 			

Appendix I to REA: Environments, Hazards and Climate Changes

Environment	Natural Hazards and Climate Change
Arid/Semi-arid and desert environments	Low erratic rainfall of up to 500 mm rainfall per annum with periodic droughts and high rainfall variability. Low vegetative cover. Resilient ecosystems & complex pastoral and systems, but medium certainty that 10–20% of drylands degraded; 10–30% projected decrease in water availability in next 40 years; projected increase in drought duration and severity under climate change. Increased mobilization of sand dunes and other soils as vegetation cover declines; likely overall decrease in agricultural productivity, with rain-fed agriculture yield reduced by 30% or more by 2020. Earthquakes and other geophysical hazards may also occur in these environments.
Humid and sub-humid plains, foothills and hill country	More than 500 mm precipitation/yr. Resilient ecosystems & complex human pastoral and cropping systems. 10–30% projected decrease in water availability in next 40 years; projected increase in droughts, heatwaves and floods; increased erosion of loess-mantled landscapes by wind and water; increased gully erosion; landslides likely on steeper slopes. Likely overall decrease in agricultural productivity & compromised food production from variability, with rain-fed agriculture yield reduced by 30% or more by 2020. Increased incidence of forest and agriculture-based insect infestations. Earthquakes and other geophysical hazards may also occur in these environments.
River valleys/deltas and estuaries and other low-lying coastal areas	River basins, deltas and estuaries in low-lying areas are vulnerable to riverine floods, storm surges associated with tropical cyclones/typhoons and sea level rise; natural (and human-induced) subsidence resulting from sediment compaction and ground water extraction; liquefaction of soft sediments as result of earthquake ground shaking. Tsunami possible/likely on some coasts. Lowland agri-business and subsistence farming in these regions at significant risk.
Small islands	Small islands generally have land areas of less than 10,000 km ² in area, though Papua New Guinea and Timor with much larger land areas are commonly included in lists of small island developing states. Low-lying islands are especially vulnerable to storm surge, tsunami and sea-level rise and, frequently, coastal erosion, with coral reefs threatened by ocean warming in some areas. Sea level rise is likely to threaten the limited ground water resources. High islands often experience high rainfall intensities, frequent landslides and tectonic environments in which landslides and earthquakes are not uncommon with (occasional) volcanic eruptions. Small islands may have low adaptive capacity and high adaptation costs relative to GDP.
Mountain ecosystems	Accelerated glacial melting, rockfalls/landslides and glacial lake outburst floods, leading to increased debris flows, river bank erosion and floods and more extensive outwash plains and, possibly, more frequent wind erosion in intermontane valleys. Enhanced snow melt and fluctuating stream flows may produce seasonal floods and droughts. Melting of permafrost in some environments. Faunal and floral species migration. Earthquakes, landslides and other geophysical hazards may also occur in these environments.
Volcanic environments	Recently active volcanoes (erupted in last 10,000 years – see www.volcano.si.edu). Often fertile soils with intensive agriculture and landslides on steep slopes. Subject to earthquakes and volcanic eruptions including pyroclastic flows and mudflows/lahars and/or gas emissions and occasionally widespread ashfall.

ATTACHMENT 4: FORMAT OF BI-ANNUAL ENVIRONMENTAL MONITORING REPORT

Table of Contents

Part I Introduction

- Construction activities and Project Progress during previous 6 months
- Changes in project organization and Environmental management team
- Relationships with Contractors, owner, lender, etc.

Part II Environmental Monitoring

- Environmental monitoring summary – summarize the previous six months monitoring data and provide explanations of any instances where environmental standards or guidelines are exceeded. Typically this will cover:
 - Noise and Vibration
 - Water Quality
 - Air Quality
 - Flora and fauna monitoring
- Recommendations are required to show how any accidents will be prevented in the future.
- Graphs can be used in this section to show trends, however large tables of data or multiple graphs should be attached as an appendix.

Part III Environmental Management

- EMS, SSEMP and work plans. Report on delivery of documents, required amendments etc.
- Site Inspections and audits – summarize the number and type of site visits
- Non-compliance notices – summarize the details on the number of notices given out and the issues covered. Summarize the ranking of issues.
- Corrective action plans – report on timeliness of preparation and completion
- Consultation and complaints – report on any consultation undertaken and list any complaints received.

Annexes

- Monitoring data
- Photographs
- Implementation report on EIA/IEE mitigation requirements

Reference	Requirement	Action to date	Action required/comment

LAND ACQUISITION AND RESETTLEMENT FRAMEWORK

I. INTRODUCTION

1. The Alat-Astara-Iranian border highway (M3) is among the 8 major arterial roads in Azerbaijan. In 2006, the World Bank agreed to finance the upgrading of 143.6 km of the M3 highway between Alat and Masalli under the Second Highway Project (Loan 7356 AZE). The works were divided into three sections. Section 1 covers 32.4 km from the Alat settlement to Kursangi-Salyan. Section 2 covers 26.2 km between Salyan and Shorsulu, while section 3 covers 63 km between Shorsulu and South of Masalli. Section 3 adjoins Section A of the ongoing Road Network Development Program funded by the Asian Development Bank (ADB).
2. Detailed engineering design has been completed for sections 1, 2 and 3. All these sections require the acquisition of land. For each section, a Resettlement Action Plan (RAP) was prepared and implemented following the Resettlement Framework agreed between the Government of Azerbaijan and the World Bank. Most of the privately-owned land needed for all three sections has been acquired. Civil works have started in Sections 1 and 2. However, due to financing short-fall, Section 3 was dropped from the Highway 2 Project. Related to this, the Government of Azerbaijan requested ADB to finance the construction of Section 3 under a new multitranche financing facility (MFF).
3. Considering that land acquisition for the 63 km road section has been substantially completed, a due diligence assessment was conducted as part of the Project Preparation Technical Assistance (PPTA) for the investment program to (a) determine compliance with the the Resettlement Action Plan (RAP) and Resettlement Policy Framework (RPF) agreed between the Government and the World Bank; (b) identify any outstanding issues; and (c) assess compliance with ADB Safeguard Policy Statement (2009).
4. This Land Acquisition and Resettlement Framework (LARF) for the Second Road Network Investment Program (the Program) is prepared taking into account the agreed provisions in the RAP and RPF of the World Bank financed-Second Highway Project while incorporating findings from the due diligence assessment and ensuring compliance with ADB SPS (2009) and relevant laws and regulations in Azerbaijan.
5. The Investment Program includes physical components (i.e. transport infrastructure development) most of which will involve significant land acquisition and resettlement (LAR) impacts.¹ The first tranche (Project 1) will involve the construction of the 30-km four-lane highway of the Alat–Masalli road between Jalilabad to Masalli connecting to section A: Masalli to Girdani of the Masalli–Astara Motorway being financed under Project 1 of the ADB-financed Road Network Investment Program. Tranche 2 (Project 2) will cover another 33-km of the same road section connecting to Section 2 of the World Bank financed Second Highway Project.
6. A Land Acquisition and Resettlement Plan (LARP) will be prepared to cover the remaining land acquisition and rehabilitation assistance activities for persons displaced by land acquisition in the 30-km section (km 112.9–km 142.9) of the Alat–Masalli road covered under

¹ Involuntary resettlement impacts are considered significant if 200 or more people will experience major impacts, which is defined as: (i) being physically displaced from housing, or (ii) losing 10% of more of their productive assets (income generating). ADB OM/FI (March 2010).

Project 1 consistent with the provisions of the ADB SPS (2009). Project 1 was categorized as category 'A' by ADB with regard to involuntary resettlement.

7. This LARF was prepared by the AzerRoadServices (ARS) to detail mechanisms, procedures and compensation entitlements for planning/implementing LAR tasks for relevant projects under the MFF, including provisions for temporary impacts and emerging LAR issues during project implementation.

II. LAND ACQUISITION AND RESETTLEMENT PROCESSING REQUIREMENTS

8. Based on ADB SPS (2009) and practice, the appraisal of the MFF and each specific tranche, and the approval of the implementation of subprojects under a tranche will require the following:

- (i) A LARF for the whole MFF and applicable to all subprojects. The LARF will be reviewed, updated if necessary, and submitted for ADB approval at least annually and always at the start of the preparation of each tranche under the MFF.
- (ii) An initial poverty and social assessment (IPSA) indicating, for each tranche, whether LAR impacts are likely to occur, type of impacts, and likely magnitude;
- (iii) If LAR will occur, a LARP for each specific subproject under a tranche based on detailed design. The LARP will include detailed compensation and administration budgets and implementation schedules relating the compensation process with the initiation of civil works (See LARP outline in Appendix A).

9. Specifically, the implementation of tranche subprojects will be based on the following LAR-related requirements:

- (i) **MFF and Project 1 appraisal:** Conditional to the preparation and disclosure of: a) LARF acceptable to ADB and Government; b) IPSA; and c) LARP acceptable to ADB and Government for Project 1.
- (ii) **Approval of the periodic financing request (PFR) for following tranches:** Conditional to: a) LARF review, update, re-disclosure, and b) preparation and disclosure of LARPs consistent with the revised LARF and acceptable to ADB and Government for each tranche subproject with LAR.
- (iii) **Implementation – Start of Contract (construction) for subprojects with LAR impacts:** Conditional to the finalization and disclosure of “implementation-ready” LARPs acceptable to ADB and reflecting final impacts, displaced person (DP) lists, and compensation rates.
- (iv) **Initiation of physical civil works in subproject sections with LAR Impacts:** Conditional to: a) full implementation of the compensation program described in the LARP including the full delivery of compensation to the DPs;² and b) satisfactory review by ADB and the Government of the LARP completion report and external resettlement monitoring report. Such a condition will be clearly spelled out in the text of the civil works contract.

² Rehabilitation assistance for severely affected households and vulnerable households through employment in civil works will remain an entitlement to be provided during the lifetime of the project and requires to be monitored for its duration

10. To meet the above requirements for MFF approval, ARS has (i) prepared this LARF acceptable to ADB and Government; and the (ii) LARP for Project 1 consistent with the revised LARF.

III. PREPARATION OF THE LAND ACQUISITION AND RESETTLEMENT PLAN

11. The preparation and implementation of land acquisition activities for the 63-km Alat–Masalli road section proposed to be covered under Projects 1 and 2 of the MFF was initiated in 2010 under the World Bank funded Second Highway Project after the completion of the detailed design and following the resettlement policy framework agreed between the GoA and the World Bank. Implementation of the land acquisition activities was handled by the ARS-LAD, with support from its supervision consultant.

12. As of May 2012, the remaining LAR-related activities include (a) compensation of 15 households (with a combined loss of 2.031 ha of privately-owned agricultural land) who are either out of the country or with inheritance issues; (b) processing of compensation for 92.8 ha of municipality-owned lands; and (c) provision of employment opportunities in civil works for severely affected and vulnerable households.

13. The LARP for Project 1 under the MFF focuses on the LARP-related activities identified as part of the due diligence assessment. LARP implementation will be carried out by LAD. For the LARP activities under Project 2, the Project Management Consultant (PMC) and the Supervision Consultant (SC) will assist ARS in the preparation, implementation and reporting of LARP tasks. The PMC and the SC will be required to have both international and local LAR capacity sufficient to cover LAR planning and implementation needs for the program implementation.

14. Affected lands and structures were identified during the conduct of the census and detailed measurement survey (DMS) in March 2008. In case of new impacts are identified during project implementation, the PMC shall inform ADB and the IA and ensure that no civil works are conducted in areas with emerging LAR impacts until proper compensation has been provided to the DP.

IV. LEGAL AND POLICY BACKGROUND

A. Azerbaijan Laws and Regulations on Land Acquisition and Resettlement

15. The **Constitution of Azerbaijan (1995)** recognizes the citizens' right to own, use and dispose property. It guarantees that no one will be dispossessed of their property without their consent or decision by the court of law and that alienation of private property for state needs will be allowed only after payment of fair compensation to the owner (Article 29).

16. In April 2010, the Government approved the **Land Acquisition Act** which provides a comprehensive guide on land acquisition for state needs. However, the law exempts projects which have already commenced proceedings or actions prior to the effectiveness of the act (Article 83). Since actions related to land acquisition for the 63 km Alat–Masalli road section have started as early as 2008, LAR activities continued to be done in accordance with the laws under which they were commenced.

17. Prior to the enactment of the Land Acquisition Act, there are no laws or legislation in Azerbaijan that specifically consider matters of involuntary resettlement. However, a few

regulatory instruments exist in the country that provide the basis for regulating and managing the acquisition of land, properties and productive assets and for compensation for the loss of these assets.

18. These instruments include (i) Land Code (25 June 1999), (ii) Civil Code (1 December 1998), (iii) Resolution of the Cabinet of Ministers No. 42 (15 March 2000), (iv) Resolution of the Cabinet of Ministers No. 110 (June 1999), (v) Decree on Application of the Road Law (2000), and (vi) Decree on Additional Activities for Regulating the Use of Road Reserves (2004), and Resolution of the Cabinet of Ministers No. 54 (4 April 2009). Collectively, these regulations provide options for land acquisition from legal landowners: (i) land-for-land and, (ii) compensation based on market prices. Dispute over compensation is subject to resolution in the courts.

19. The **Land Code (1999)** is one of the critical legislation related to land acquisition as it (a) provides for compensation principles for the loss of land, established on the basis of the Resolution of the Cabinet of Ministers No. 54 and Standard Code of Azerbaijan No. 158, 1998; (b) allows recourse through courts; and (c) provides the basis for a land-for-land compensation option. When land is required for projects of national interest, compensation is initially offered on the basis of valuations made in accordance with a standard code (no. 158 dated 1998). If landowners are unhappy with this valuation, the market price will be used as a basis for valuation. In the event that such agreement cannot be reached, the acquiring authority can process its application for acquisition through the courts. The Land Code also allows provision of alternative lands equivalent in value to the land being acquired. It does not allow acquiring agencies to physically and legally acquire land unless every household member of the affected households has signed the legal document certifying the transfer of land to the acquiring agencies.

20. The Land Code also requires the acquiring agency to submit the signed agreements with all land owners in order for the budget of land acquisition to be released. Where a relevant local executive authority decides a land case, the decision shall come into force immediately and this decision will not be terminated by the lodgment of a complaint with the relevant court. Articles 110 and 111 describe willful occupation of land plots, implementation of illegal construction on land plots as violations of the land legislation, and state that these are prohibited acts. Such land plots will be returned to the relevant authorities without reimbursement of the expenses incurred during the illegal utilization. Rehabilitation of the lands should also be carried out by the illegal occupants, at their own expense.

21. The **Civil Code (1998)** states that any right to immovable properties must be registered with the State, and that land may be recalled from owners for state or municipal needs as approved by the relevant courts. The legality of ownership is established through the registration certificate issued by the Real Estate Land Registry Service based on the cadastral information (survey numbers) obtained from the State Land and Cartography Committee (SLCC) where the land is located. Provisional ownership certificates may be also issued by the district/municipal authorities.

22. **Resolution of the Cabinet of Ministers No. 42** – On Some Normative and Legal Acts Relating to the Land Code of the Azerbaijan Republic dated 15 March 2000 outlines procedures for the compulsory acquisition of land for state or municipal needs.

23. **Resolution of the Cabinet of Ministers No. 110** – On Approval of Regulations for an Inventory Cost estimation of Buildings Owned by Natural Persons dated June 1999 outlines

procedures for acquisition and compensation valuation for affected buildings and immovable properties. It refers to the standard code No. 58 for making valuations of land and property to be acquired. These valuations are made on the basis of standard unit rates for different types of construction in different regions of Azerbaijan.

24. **Decree of the President dated 26 December 2007** on ensuring the execution of the law No. 506-3 QD dated 7 December 2007 on “Amendments and Additions to the Civil Code of the Azerbaijan Republic” requires the provision of 20% additional compensation to the calculated market price of the acquired property to compensate for the damages resulting from the purchase of property, including lost income and loss connected with the pre-termination of commitments against third parties.

25. **Resolution of the Cabinet of Ministers No. 54** on Approval of the Procedures for Calculating the Acquisition Price of Real Property for Public Needs provides the State Committee on Property Issues (SCPI) the overall responsibility for land acquisition and resettlement issues. The resolution requires the executing agency in need of land acquisition to submit all necessary documents (including preliminary budget estimate) to the SCPI. SCPI reviews the documents submitted jointly with the Ministries of Finance and Economic Development. Based on the results of this review the Cabinet of Ministers issues a resolution on the acquisition of property for public needs.

26. After the resolution is passed a written notification should be sent to property owners by the Executive Agency within 3 calendar days. The executing agency should involve an independent appraiser in order to value affected assets. The appraiser should meet the minimum qualification requirements set by the State Property Committee with agreement of the Ministry of Finance and Ministry of Economic Development.

27. Calculation of the market price of the acquired property is based on the following:

- market value of the real property in the respective administrative area; or
- replacement value of the property and land, if there has not been any real property transaction in that area to formulate a fair price of land or if the land is to be replaced with another parcel of land; or
- in case it is impractical to use market or replacement value to formulate a fair and real price of land, any price which is no less than normative price of land;
- if more than one method of valuing the land can be used, then the method that formulated the highest price shall be applied.
- in case the acquired land is swapped with another parcel of land with the agreement of the land owner, the following will also be provided in order to recover the livelihood of land owners after resettlement:
- compensation for agricultural land will include costs of preparing the land for planting, as well as expected costs of fees and taxes related to transfer of land title;
- in residential areas (towns, suburban, and rural), compensation will include infrastructure of the same or improved quality, fees and taxes for obtaining and registering property titles.
- costs incurred to reinstate land, if not undertaken;
- moving and transportation costs;
- salvage materials will be returned to owners with his/her agreement.

28. Upon the receipt of the appraisal report, the Executive Agency shall send a notice to the owner within one day and with all supporting documents attached. Compensation shall be transferred to the bank accounts of physical and legal entities not later than 120 days of submission of the first notice sent to the owner of the property.

B. Compensation Valuation Methods in Azerbaijan

(i) Land, Crop and Tree Compensation

29. Procedures for valuation for compensation and other purposes are laid down in the Land Law, the Land Code, as well as the following legal instruments:

- Resolution No. 42 on Some Normative and Legal Acts relating to the Land Code;
- Cabinet of Ministers Resolution No. 110 – On Approval of Regulations for an Inventory Cost estimation of Buildings.

30. For agricultural land, base land values are established using the Former Soviet Union (FSU) based cadastre system which values land based on land attributes (productivity of soils and regional agricultural characteristics), input costs and typical revenues achieved in each district. Cadastre based values are then reviewed in each district by a Valuation Commission and adjusted upwards where necessary to reflect changes in crop types and productions levels. Market prices for valuing crop production are determined based on local market prices.

(ii) Annual Crops

31. Compensation payable for loss of annual crops is determined by the Valuation Commission for each district that uses certified data on the productivity of crops and average price of produce as issued by the district Department of Statistics. The formula used for calculating compensation for annual crops is as follows:

$$CrC = ((RP \times Yd) - CC) \times A \times T$$

Where:

CrC is the compensation for loss of income from annual crops

RP is the retail price of the produce (Azeri Manat / 100 kg)

Yd is the yield (100 kg / hectare)

CC is the growing costs including material inputs, agro-technical activities, transportation,

taxes and duties (Azeri Manat / hectare)

A is the area cleared by the project (hectares)

T is the number of lost growing seasons

(iii) Perennial Crops (Trees, Shrubs and Vines)

32. Perennial crops such as fruit trees, grape vines, and currant bushes are valued on a per tree or per shrub basis by applying a standard formula similar to that outlined above.

(iv) Land

33. The land compensation price must be based on the market price, provided that such price is not less than the cadastral or normative price for the subject land (*Land Code*, article 96.5). Normative or cadastral rates for lands in each district are established by *Cabinet of*

Ministers Resolution No. 158 On Establishment of New Normative Prices for Land in the Azerbaijan Republic (23 July, 1998). The Project will pay compensation for permanent acquisition of land based on negotiated rates. The government normative or cadastral rates will be the minimum. During land privatization, land titles allocated to families had all members of the family as of 1996 listed on the land parcel ownership certificate. In these cases, the household head is responsible for signing project documentation relating to leases or assignment of rights. The household head must, however, obtain the written consent of all other people listed on the ownership documents.

(v) Immovable Assets and Land Attachments

34. This covers a range of items such as fences, walls, animal enclosures, small irrigation channels, drains, wells, hand pumps, artesian bores, water pumps, hay sheds, animal shelters and roads. These items will be valued on the basis of full replacement cost.

(vi) Temporary Impacts

35. Compensation for temporary impacts during construction will cover the following components:

- Loss of annual crop production
- Potential crop yield reduction for three years
- Loss of any trees or perennial crops
- Loss of use of grazing land
- Loss of immovable assets and land attachments.

36. Upon construction of completion, the land used for temporary access roads will be reinstated to its pre-project condition and returned to the owner or user.

C. The ADB Safeguard Policy Statement (SPS), 2009

37. The ADB Safeguard Policy Statement, 2009, applies to losses due both to physical and economic displacement caused by involuntary acquisition of land and is based on the following basic principles:

a. Compensation, Assistance and Benefits for Displaced Persons (DPs)

- Compensate/assist those with formal legal rights to the land lost and those who have claims to lands that are recognized or recognizable under national laws. Compensate DPs who have neither formal legal rights nor recognized or recognizable claims to land for non-land assets.
- Compensate for affected lands, structures and other assets and put in place a comprehensive income and livelihood rehabilitation program prior to displacement.
- Give preference to land-based resettlement strategies for displaced persons whose livelihoods are land-based. Provide physically displaced persons with relocation assistance, secured tenure to relocation land, better housing at resettlement sites with comparable access to employment and production opportunities, and civic infrastructure and community services.

- Promptly compensate economically displaced persons for the loss of income or livelihood sources at full replacement cost, and provide other assistance (i.e. access to credit, training, and employment opportunities) to help them improve, or at least restore, their income-earning capacity, production levels, and standards of living to pre-displacement levels.
- Provide DPs with opportunities to share project benefits in addition to compensation and resettlement assistance.

b. Social Impact Assessment

- Conduct socioeconomic survey(s) and a census, with appropriate socioeconomic baseline data to identify all persons who will be displaced by the project and to assess the project's socioeconomic impacts on them.
- Identify individuals and groups who may be differentially or disproportionately affected by the project because of their disadvantaged or vulnerable status as part of the social impact assessment.

c. Resettlement Planning

- Prepare a resettlement plan based on the social impact assessment and through meaningful consultation with DPs.
- Ensure that DPs are (i) informed about their options and entitlements pertaining to compensation, relocation, and rehabilitation; (ii) consulted on resettlement options and choices; and (iii) provided with resettlement alternatives.
- Ensure that both men and women receive adequate and appropriate compensation for their lost property and resettlement assistance, if required, as well as assistance to restore and improve their incomes and living standards.
- Analyze and summarize national laws and regulations pertaining to land acquisition, compensation payment, and relocation of DPs; and compare with ADB SPS (2009) principles and requirements. In case of gap, propose a suitable gap-filling strategy in the resettlement plan in consultation with ADB.
- Consider all costs of compensation, relocation, and livelihood rehabilitation as project costs.
- Include detailed measures for income restoration and livelihood improvement of DPs. For vulnerable persons and households, provide extra assistance so that they can improve their incomes in comparison with pre-project levels.
- Finalize the resettlement plan soon after the completion of engineering design. Ensure that the final resettlement plan (i) adequately addresses all involuntary resettlement issues pertaining to the project, (ii) describes specific mitigation measures that will be taken to address the issues, and (iii) ensures the availability of sufficient resources to address the issues satisfactorily.
- Consult DPs identified after the formulation of the final resettlement plan and inform them of their entitlements and relocation options.

A supplementary resettlement plan or a revised resettlement plan should be submitted to ADB for review before any contract is awarded.

- Use qualified and experienced experts to prepare the social impact assessment and the resettlement plan.

d. Information Disclosure

- Submit to ADB for disclosure on ADB's website: (i) the draft resettlement plan and/or resettlement framework endorsed by the borrower/client before project appraisal; (ii) the final resettlement plan endorsed by the borrower/client; (iii) the new resettlement plan or an updated resettlement plan, and a corrective action plan prepared during project implementation, if any; and (iv) resettlement monitoring reports.
- Provide relevant resettlement information in a timely manner, in an accessible place and in a form and language(s) understandable to affected persons and other stakeholders. For illiterate people, use other suitable communication methods.

e. Consultation and Participation

- Consult meaningfully DPs, their host communities, and civil society for every project and subproject with involuntary resettlement impacts.
- Pay particular attention to the need of disadvantaged or vulnerable groups, especially those below the poverty line, the landless, the elderly, female-headed households, women and children, indigenous peoples, and those without legal rights to land.

f. Grievance Redress Mechanism

- Establish a responsive, readily accessible and culturally appropriate mechanism to receive and facilitate the resolution of DPs' concerns and grievances, paying particular attention to the impacts on vulnerable groups.

g. Monitoring and Reporting

- Monitor and measure the progress of implementation of the resettlement plan. For projects/subprojects with significant LAR impacts, retain qualified and experienced external experts to verify internal resettlement monitoring information. If any significant involuntary resettlement issues are identified, prepare a corrective action plan to address such issues. Do not proceed with implementing the project until such planning documents are formulated, disclosed and approved.

h. Unanticipated Impacts

- Conduct a social impact assessment, update the resettlement plan or formulate a new resettlement plan if unanticipated involuntary resettlement impacts are found during project implementation.

i. Special Considerations for Indigenous Peoples

- Avoid physical relocation of indigenous peoples that will result in adverse impacts on their identity, culture, and customary livelihoods. If adverse impacts cannot be avoided, formulate a combined indigenous peoples plan and resettlement to meet all relevant requirements specified under ADB Safeguard Requirements 3: Indigenous People.

j. Negotiated Settlement

- Encourage acquisition of land and other assets through a negotiated settlement whenever possible.
- Subject to third-party validation negotiated settlements that would result in expropriation to ensure that the compensation is based on fair price (replacement cost) of land and/or other assets, and is based on meaningful consultation with DPs.

D. Comparison of Azeri Laws and Regulations and ADB's Safeguard Policy Statement (2009)

38. Prior to 2010, national legislation only consider provision of compensation to people with registered rights to the affected assets. There is also no attention provided to livelihood restoration. Requirement for consultations is also limited. The Land Acquisition Act of 2010 introduced improvements to address these gaps such as (a) payment of compensation to non-titled persons for their non-land assets and provision of rehabilitation, (b) provision of transition assistance, (c) not deducting depreciation in the compensation of structures, (d) covering all transaction costs in compensation payments, (e) conducting land valuation at replacement cost, (f) mandating the expropriating agency to assist DPs in their relocation and in restoring their livelihood. However, since land acquisition for the Alat–Masalli road upgrading was planned prior to the effectiveness of the Land Acquisition Act, the project had to work on these previous gaps between national legislation and IFI's policy on involuntary resettlement. Differences between Azeri law and regulations prior to the enactment of the Land Acquisition Act and ADB's policy are outlined in Table 1.

Table 1: Comparison of Azeri Laws and Regulations on LAR (Prior to Land Acquisition Act) and ADB's Safeguard Policy Statement (2009)

Azeri Land Laws and Regulations	ADB's SPS
Compensation only to titled/registered DPs	Compensation for non-titled DPs for their non-land assets
Deducts depreciation in the valuation of structures	Depreciation is not considered in the valuation of structures.
No attention to livelihood restoration	Attention given to livelihood restoration
No specific requirement for targeted measures to assist vulnerable groups, but allows for additional provisions for fairness of paid compensation.	Requires the identification and provision of targeted measures to assist vulnerable groups.
No specific requirement for third-party validation for negotiated settlement and external monitoring for projects with significant LAR	Requires third-party validation of negotiated settlement and external resettlement monitoring for projects with significant LAR

E. Remedial Measures to Bridge the Gap

39. The differences between Azeri Laws and ADB policy are addressed in this Land Acquisition and Resettlement Framework (LARF) which ensures compensation for non-titled persons for their non-land assets, non-deduction of depreciation in the compensation for structures, conduct of consultation and establishment of adequate grievance redress mechanism, attention to vulnerable households, and conduct of external resettlement monitoring.

V. THE PROGRAM COMPENSATION ELIGIBILITY AND ENTITLEMENTS

40. The land acquisition and resettlement tasks under the program will be carried out according to the compensation eligibility and entitlement provisions developed in line with the Azeri laws and the ADB SPS (2009) as detailed in the next chapter.

A. Eligibility and Entitlements

41. Under the Program LARF the following categories of DPs will be entitled to compensation and/or rehabilitation benefits:

- (i) DPs losing land irrespective of whether land is held under valid legal rights or customary rights with or without legal status;
- (ii) Tenants and sharecroppers whether registered or not;
- (iii) Owners of buildings, crops, trees or other objects attached to the land; and
- (iv) DPs losing business or income/employment opportunities.

42. March 2008, which is the date of the census and detailed measurement survey conducted is considered as the cut-off date for compensation eligibility. DPs settling in affected areas after this date will not be eligible for compensation. They, however, will be given sufficient advance notice to vacate and dismantle the affected land/structures. Their dismantled structures will not be confiscated nor will they be fined or sanctioned.

43. Since land acquisition has been substantially completed following the entitlements and livelihood restoration approach in the resettlement action plan agreed between the Government of Azerbaijan and the World Bank in 2006, the same entitlements and livelihood restoration approach is adopted for this MFF to cover the remaining LAR activities for this road section.

44. Compensation entitlement includes provisions for permanent land losses, house and building losses, crops and tree losses. These entitlements are as follows:

- *Private Land Impact.* DPs regardless of legal title will be compensated in cash at the current market rates. Eventual transaction taxes/fees will be paid by the Executing Agency (ARS) or waived by the government. Additional compensation will also be made for the remaining land which is no longer viable to continue current use. A 20% premium will be added to the compensation as per President Decree (26.12.2007) to cover extra costs.

As per Cabinet of Ministers' Resolution 54, in case the acquired land is replaced by another parcel of land with agreement from the land owner, the following additions are calculated in order to recover the living standard and condition of the landowner after moving to the new place:

For agricultural land – cost for improving the quality of the land similar to the condition of the adjacent land, as well as fees and taxes for the transfer of land title.

For residential land (in towns, suburban and rural areas) – In addition to the replacement price of land of the same size and purpose, the plot should have the same or improved public infrastructure in the adjacent area. Compensation will also include the cost of designing and approval of new real estate and fees/taxes for obtaining property titles.

- *Public Land Impact.* Municipal owners will be compensated based on the nominal value in the form of cash at normative price as indicated in the Cabinet of Ministers Resolution providing nominal prices for land of various categories in the different districts of the country. Private individuals leasing public land will not be compensated as it is stipulated in the lease contract that such lease will be cancelled in case the government needs the said land for public use. However, leaseholders who would like to apply for a new lease in an alternative plot will be assisted by ARS in their application with the respective municipality, subject to availability of suitable land.
- *Houses, buildings and structures.* These will be compensated in cash based on the replacement cost (calculated based on cost of materials, type of construction, labor, and other construction costs) free of deductions for depreciation, salvaged materials and transaction costs irrespective of the registration status of the affected item. The cost of lost water and electricity connections will be included in the compensation. A 20% premium will be added to the compensation as per President Decree (26.12.2007) to cover extra costs.
- *Trees and standing crops.* The construction schedule is adjusted so farmers will be able to harvest the annual crops. In the event that the schedule cannot be adjusted and some loss of crops becomes inevitable, compensation based on the replacement value will be provided. Annual crops will be valued at full market rate at farm gate prices. Cash compensation for affected trees will be based on the price index provided by the Ministry of Agriculture for replacement cost of trees.
- *Severe impact and Vulnerable Households.* Severely affected people (over 10% land take), as well as vulnerable households (those with income below the poverty line) will be given a priority in benefiting from additional rehabilitation measures such as employment opportunities under the civil works activities which will be stipulated in the civil works' contract, and jobs created in service/ rest areas that will be established once the highway becomes operational.
- *Businesses.* As per Cabinet of Ministers Resolution No 54, business income loss is computed based on the business income from the most recent fiscal year confirmed by tax authorities during the period of disruption of business operation. Workers from affected businesses who will lose their jobs will be compensated based on their officially reported wages confirmed by tax authorities (or based on official minimum wage if there are no official records). To avoid business loss, operation of the existing business will be allowed until the replacement structure has been constructed and ready for operation.
- *Relocation.* As per Cabinet of Ministers Resolution No 54, households who need to relocate will be assisted in moving into their new location by the concerned executive power.

- *Community Structures and Public Utilities.* If damages are unavoidable, these will be fully replaced or restored to meet their pre-project functions. This will be part of the civil works contract.
- *Temporary impact during construction.* Temporary impacts during construction are a major consideration. Mitigating measures for these temporary impacts will be instituted. The civil works contract will require the contractor to be responsible for the temporary acquisition and reinstatement of all land required outside the road reserve for construction camps, offices, borrow pits, materials storage sites, materials processing sites and haul roads. The contractor will select the land parcels they require and they will be responsible for negotiating agreements with land owners to occupy the land. In the event that a contractor fails to obtain the agreement of any landowner, he would be required to select an alternative site and negotiate a new agreement. No involuntary occupation of land for temporary construction purposes would occur. Provision will be made in the civil works contract for the contractor to be responsible for providing adequate measures to cater for existing traffic while the road/bridge rehabilitation/construction works are in progress. The contractors shall be required to obtain the approval of ARS for all proposals for traffic management during the construction of the civil works contracts and they shall also be required to maintain all temporary diversion roads and existing roads used to carry diverted traffic from the main road.

45. The compensation and rehabilitation entitlements for each affected item established for the Program is detailed in the entitlement matrix³ below. **Table 2.**

Table 2: Entitlement Matrix

Type of Loss		Application	Entitled Person	Compensation Measures	Policy Basis	Responsible Agency
1	Permanent loss of private land	Agricultural, residential and commercial land	Land owner	Cash compensation based on market value free of transaction cost plus 20% additional compensation according to Presidential Decree dated 26, 12, 2007. If preferred, land plots of the same size and quality. Transaction cost related to land swap will be covered by ARS or waived by the government.	Azerbaijan Constitution, Land Code, Cabinet of Ministers Decision No. 110 and No. 54.	ARS-LAD, SLCC
	Permanent loss of public land	Municipal land	Municipality and rayon	Cash compensation based on the normative price plus 20% additional compensation for agricultural and prospective housing areas of municipal land. Leaseholders will not be reimbursed by the municipality for the period of lease not utilized on the portion retaken as the lease has set limitation in case of recall by the government of the said land for public use. However, leaseholders who intend to lease a	Cabinet of Ministers Decision No. 158 and No. 54, Land Code	ARS-LAD, SLCC and the executive powers of respective areas

³ This matrix is patterned from the entitlement matrix agreed between the GoA and the World Bank for the implementation of the Resettlement Action Plan for Section 3 of the Second Highway Project (Loan No. 7356, January 2006).

Type of Loss		Application	Entitled Person	Compensation Measures	Policy Basis	Responsible Agency
				new plot will be assisted in obtaining a new lease.		
2	Loss of structures	Private, residential, commercial and other types like fences and animal stables. Community structures and public utilities.	Owners (including those with no registered right on the land where the structure is located). Rayon administration	Cash compensation based on replacement cost free of deduction for depreciation, salvaged materials and transaction costs irrespective of the registration status of the structure, plus 20% additional compensation based on Presidential Decree dated 26, 12, 2007 and assistance in the transfer of the affected buildings to new premises. Replacement or restoration of community structures to pre-project status as part of contractor's responsibility	Land Code, Cabinet of Ministers Decision 54.	ARS-LAD
3	Loss of trees, crops	Standing crops and trees	Owners/ cultivators, tenants, lease holders	60 days advance notice to harvest standing seasonal crops. If crops cannot be harvested within 60 days, cash compensation for crops (or share of crops) equivalent to prevailing market price. Cash compensation for perennial crops and fruit bearing trees based on replacement principle. Cash compensation equivalent to prevailing market price of timber for non fruit bearing trees. Lumber from these trees may be kept by the owner. No compensation will be provided for crops already harvested.	Land Code of Azerbaijan	ARS-LAD and the civil works contractor
4	Severe impact/ vulnerable house holds	Severely affected people (10% or more land take) as well as households headed by an elderly or woman	Severely affected people (10% or more land take), households headed by an elderly or woman	Priority to be given to able household members in employment opportunities under the civil works contracts and jobs created in service/rest areas that will be established once the highway becomes operational.	Civil works contract	ARS-PIU, contractor and executive powers
5	Income loss	Income loss due to disruption of business operations	Business owner worker	Cash compensation during period of disruption based on the income from the previous fiscal year confirmed by tax authorities. Cash compensation equivalent to officially reported wage (if not available based on the official monthly minimum) during the period of disruption up to a maximum of 3 months	Cabinet of Ministers Decision No. 54	ARS-LAD
6	Relocation	Relocation of affected structures	Relocated household	Assistance for moving to the new site (in terms of vehicle and personnel).	Cabinet of Ministers' Decision No. 54	Executive power

Type of Loss		Application	Entitled Person	Compensation Measures	Policy Basis	Responsible Agency
		and households				
7	Temporary impacts	Various types: temporary impacts concerning traffic diversion and temporary loss of access	General public, owners of roadside structures	The contract will require the civil works contractor to be responsible for the temporary acquisition and reinstatement of all land required outside the road reserve for construction camps, offices, borrow pits, materials storage sites, materials for processing sites and haul roads. The contract will select the land parcels they require and they will be responsible for negotiating agreements with land owners to occupy the land. In the event that a contractor fails to obtain agreement with any landowner, he will be required to select an alternative site and negotiate a new agreement. No involuntary occupation of land for temporary construction purposes will be allowed.	Civil works contract	PIU-ARS, contractor and executive powers

B. Disturbance and Temporary Impacts during Construction

46. During construction, there may be some temporary disturbance caused by subproject contractors for temporary access roads, workers camps, borrow pits, storage areas, and similar other activities. These temporary impacts will only be known during subproject implementation.

47. ARS will address such issues through appropriate conditions in the civil works contract. The civil works contracts will require contractors to negotiate and reach an agreement with the owners/users of any land before it is used temporarily by the contractor.

48. Such agreements will be based on the following principles:

- Rent agreed between contractor and the land owner based on the loss of revenue by the land owner/land user during the period of its use by the contractor
- Permanent damages to improvements/structures, if any, will be compensated in cash following the provisions in the entitlements matrix, with valuations done by the district Valuation Commission.
- Upon the completion of works, the land that was temporarily used must be restored to its pre-project condition and returned to the owner/user

49. Before the release of their final payment, contractors will be required to submit proof that all temporarily used lands have been fully restored to their pre-project conditions and that there are no pending compensation issues related to the temporary use of land.

VI. PROVISION OF LAND FOR LAND COMPENSATION

50. If “land for land” is chosen as the compensation option, ARS-LAD will locate on the town map the possible relocation site / replacement plots from which the DPs can choose. They will also identify the associated infrastructure requirements (service roads, drainage, sanitation,

water supply and electricity facilities) and site-preparation costs. All relocation activities will be carried out with the consent and cooperation of the DPs.

51. The land swap option will be provided to the affected households if they prefer getting land plots of the same size and quality to cash compensation. Public land is available for swap in most affected areas, and local government and municipal officials confirmed during the public consultation meetings and inquiries from ARS that alternative land plots of the same size and quality can be provided, where available, to those who prefer. The transaction cost and other start up costs of using new land plots would be shouldered by ARS through its own budget.

52. DPs who prefer a land swap will be assisted by ARS-LAD in making a standard application stating their preference for the land swap option. The application will be filed by ARS-LAD to the concerned rayon executive power and local municipality with a request to allocate appropriate land plots. The rayon executive power/local municipality then proposes alternative land plots for consideration of the land owners. After consideration of all available options, the DP has the right to drop their preference to land swap and elect cash compensation. Once the land plot for swap is agreed between the land owner and local authorities, transaction is registered in the records of Local Land Office/SLCC and State Real Estate Registration Service. Related registration and transaction costs are covered by ARS.

53. Throughout the process, ARS-LAD/PIU and the national resettlement specialist from the Program Management Consultant will be accessible to DP and provide necessary assistance in addressing any grievances.

54. All land swaps will be completed prior to initiation of civil works. The PMC national resettlement specialist will work closely with ARS to ensure that the land swaps are processed appropriately and timely and all related transaction costs are covered by ARS.

VII. GENDER IMPACT AND MITIGATION MEASURES

55. Women have important economic roles and engage in a very wide range of income making activities in the agricultural and marketing sector. The Program will pay particular attention to ensure that women are the recipients of the compensation pertaining to their activities and to ensure that women who are de-facto household heads are clearly listed as beneficiaries of compensation and rehabilitation proceedings under the loan. In order to ensure the above the following actions will be considered:

- (i) Impact assessment will disaggregate the DPs gender-wise and will clearly indicate the number of affected women-headed households and their pre-Program socioeconomic status.
- (ii) Women will be encouraged to actively participate in all LAR-related consultations and negotiations.
- (iii) LARP monitoring/evaluation will pay special attention on the impact of resettlement on women and other vulnerable groups.
- (iv) All compensation due to woman-headed families will be given to only the women family head and/or provided with new titles in their names.
- (v) In case of spouses, if the title is under the name of the woman the compensation will be provided to the woman and the new title for the remaining plot will be kept in her name.

VIII. INSTITUTIONAL ARRANGEMENTS

56. Land acquisition and resettlement planning and implementation involves different agencies, including ARS-LAD, the State Committee for the Management of State Property, the State Land and Cartography Committee, the Executive Power of each Rayon, and the Program Management Consultant (PMC), the Supervision Consultant (SC) and the civil works contractor.

A. Azer Road Service Open Joint-Stock Company (ARS)

57. ARS has overall responsibility for all projects under the MFF, including the preparation, implementation, and financing of all LAR tasks and for interagency coordination. ARS will exercise its functions through the Project Implementation Unit (ARS-PIU), which will be responsible for general project execution, and tasked with day-to-day project activities at rayon/subproject levels. ARS-PIU has a full-time Safeguards Specialist who coordinates with the PMC and SC on safeguards related matters.

B. ARS-Land Acquisition Division (ARS-LAD)

58. The PIU will be assisted by the Land Acquisition Division (LAD) in the preparation, and implementation of LAR-related tasks, including surveys, asset valuation, and community consultation, and LAR-related interagency coordination. The LAD's tasks involve coordinating and supervising the activities of the different district level commissions and units. It recommends to ARS management actions related to compensation and expropriation. The LAD is responsible for ensuring that all DPs are duly compensated and that mitigating measures are instituted by the civil work contractor as a result of temporary impacts.

59. Since its creation in 2006, LAD received formal training and gained hands-on experience on resettlement and land acquisition for various roads projects of the ARS including state, bilaterally, or multi-laterally funded projects. LAD staff are familiar with IFI policy principles on involuntary resettlement including the World Bank and ADB. ARS-LAD will be supported by local and international monitoring consultants from the Project Management Consultant (PMC) and the Supervision Consultant (SC). As part of capacity building, ARS-LAD staff will again be provided a refresher training on the ADB SPS (2009) and the LARF by the PMC Resettlement Specialist.

C. Program Management Consultant (PMC)

60. The PMC, which will be engaged under Tranche 1 and whose services will be extended under other tranches, will assist the ARS in managing the implementation of the entire investment program and will have oversight functions over the supervision consultant in ensuring compliance with all safeguard requirements and reporting to ADB and EA. PMC will prepare implementation progress reports that include evaluation of LAR-related issues/problems and recommend remedial actions. The PMC will have an international resettlement specialist (with at least 6 person-months input) and a national resettlement specialist (at least 12 person-months input) who will be tasked to (a) conduct due diligence prior to award of contracts to confirm if there are no pending permanent land acquisition issues, (b) conduct quarterly monitoring of the provision of employment for DPs, especially those who are severely affected or members of vulnerable households; (c) monitor and report on the temporary acquisition activities of the contractor, and (d) draft a corrective action plan in case of emerging LAR-related issues or safeguards non-compliance identified during construction,

61. PMC will also be tasked to improve awareness and capacity of relevant units on environment and social safeguards matters. Related to this, upon the mobilization of the PMC, all concerned staff both at ARS-PIU and ARS-LAD and rayon akimats involved in land acquisition and resettlement activities will be oriented on the Program's LARF, ADB SPS (2009) and the GoA Land Acquisition for State Needs (2010). The training will cover the following topics: (i) principles and procedures of land acquisition, (ii) public consultation and participation, (iii) entitlements and compensation and assistance disbursement mechanisms, (iv) grievance redress, and (v) monitoring of resettlement operations. The training budget will be incorporated in the contract of the PMC.

D. Supervision Consultant (SC)

62. A Supervision Consultant will be engaged for each Project under the MFF to monitor more closely the civil works contractor. Each SC will also have a national resettlement specialist (with at least 16 person-months input) who will (a) closely work with the contractor in identifying members of severely affected and vulnerable households who can benefit from local employment opportunities, (b) regularly conduct consultations with communities along the project road and civil society organizations to inform on project activities and obtain feedback; (c) serve as grievance focal point in the field; (d) assist the PMC in monitoring progress with regard to providing employment for DPs, and in reporting concerns/feedback from the community, and (e) assist in the preparation of corrective action plan, if needed.

E. Local Governments

63. Local governments at the rayon level have jurisdiction for land administration, valuation, and acquisition while a number of other local officials from the State Land Cartography Committee and State Committee for the Management of State Property will carry out specific roles such as titles identification and verification. DPs losing leased lands will be provided with the comparable lease land in the same village by the rayon akimats. The field representative of ARS-LAD will coordinate with the municipality in this regard and assist the DPs.

64. To provide effective interagency coordination and officially endorse the surveys and the compensation rates in each affected rayon, a special commission was formed composed of representatives from the MoF, rayon office, Land Cartography Committee, Head of affected municipalities, LAD, and other relevant authorities and organizations.

F. Other Government Agencies

65. The following agencies, including their district offices, will also be involved in LAR-related tasks:

- a. Ministry of Finance (MoF) – controls the entire land acquisition process from consultation, valuation, LARF preparation and compensation payments. At the local level, MOF has rayon (district) offices to perform this role.
- b. State Committee on Property Issues (SCPI) – provides land registration data, and updates land documents after acquisition
- c. State Land and Cartography Committee (SLCC) – provides cadastral maps and list of DPs

G. Civil Works Contractor

66. As a debilitation measure, members of households which are either severely affected or vulnerable will be given priority in project-related employment. This requires close coordination with the civil works contractor and the municipalities in informing and prioritizing workers from the targeted households. Moreover, the contractor is responsible for identifying areas that may be affected temporarily during construction and negotiating and compensating affected households/owners.

IX. PUBLIC PARTICIPATION AND DOCUMENTS DISCLOSURE

67. Officials of district (rayon), municipal (baladiya) and villages (kant) have been informed about the Program, and their assistance have been solicited in the conduct of the census of DPs and the DMS. Several consultation meetings have been held during the preparation, finalization and implementation of LARPs. Prior to the finalization of a LARP and its submission to Project authorities, DPs have been informed on the results of the census and DMS. These consultations will be continued upon the mobilization of the PMC and SC to ensure that communities are fully aware of the project activities, their entitlements in case of emerging LAR issues during implementation, grievance redress mechanism and the employment opportunities in the civil works.

68. This LARF in the Azeri version will be made available at the ARS-PIU/ARS-LAD offices and at the rayon (district) offices where the project roads under the MFF pass through. The Resettlement Framework in the English version will be disclosed on the ADB website after it is endorsed by ARS. The Azeri version of the LARPs will be disclosed to affected communities and a pamphlet in Azeri, summarizing compensation eligibility and entitlement provisions, will be sent to all DPs with pending land acquisition activities before tranche appraisal.

X. COMPLAINTS AND GRIEVANCES

69. A grievance mechanism will be setup to allow a DP to refer any disagreeable decision, practice or activity arising from land or other assets compensation. DPs will be fully informed of their rights and of the procedures for addressing complaints whether verbally or in writing during consultation, survey, and time of compensation. Care will always be taken to prevent grievances rather than going through a redress process. This can be obtained through careful LAR design and implementation, by ensuring full participation and consultation with the DPs, and by establishing extensive communication and coordination between the affected communities, the ARS-LAD, PMC, SC, contractor and local governments. Complaint and grievances will be addressed through the process described in Table 3.

Table 3: Grievance Resolution Process

Land and Crops Compensation Issues	
Step 1	Complaint resolution is first attempted at the village (municipality) level with the involvement of the ARS-PIU/LAD, SC, and village authorities, NGO, and informal mediators.
Step 2	If still unsettled, a grievance can then be lodged to the Rayon Grievance Redress Commission (GRC). ⁴ Within 15 days the Rayon GRC will attempt to resolve the case or recommend its settlement to the MoF. The SC and PMC may also assist at this stage.

⁴ People's representatives, including DPs, are involved in the GRC.

Land and Crops Compensation Issues	
Step 3	If after the Rayon GRC intervention no solution has been reached a grievance can be directly lodged to MoF (as the government designated control agency on LAR issues). The DP must lodge the complaint within 1 month after receiving response from the Rayon GRC and provide the necessary documents supporting his/her claim. MoF will provide a response within 15 days of registering the complaint. The MoF decision should be in compliance with the provisions of the LARF.
Step 4	If the DP is still not satisfied with the MoF decision, the DP can submit his/her complaint to the appropriate court of law for resolution.

70. LAD shall field a team at the rayons affected by the road construction to assist in handling complaints. Since the ARS headquarters is situated in the capital of city of Azerbaijan, the DPs can contact the ARS through the field representative of LAD at the Rayon level. The Rayon GRC will meet at least once a month to discuss complaints or queries from DPs and the general public. The field representative of ARS-LAD will be responsible for recording and following up on complaints received concerning projects under the MFF.

71. The ARS-PIU Safeguards Specialist, assisted by the PMC, shall be tasked for consolidating and reporting complaints received from projects under the MFF. Grievances shall be captured for monitoring and reporting using the Intake Form and logbooks of the GRC and LAD. The intake form shall be filled up by the complainant, with assistance from GRC representatives, if necessary. The ARS-PIU Safeguards Specialist will coordinate with GRC representatives and NGOs that are monitoring the MFF at least on a monthly basis to update the integrated database of complaints. PIU shall prepare a summary report on grievances for submission to ARS and ADB which will be included in its quarterly progress report.

72. PMC will provide administrative/social support to ARS-PIU by (i) maintaining a file of GRC meetings and activities; (ii) preparing and regularly updating a consolidated database of complaints/queries received by members of GRC; and (iii) preparing on a quarterly basis a summary in tabular form with any necessary appendices, of the complaints received and status of the resolution of such complaints for inclusion in the quarterly progress report.

XI. MONITORING AND EVALUATION

73. To ensure that projects under the MFF are implemented in compliance with the provisions of the LARF, both internal and external monitoring will be carried out during and after the implementation of the LARP. Internal monitoring will be conducted by the SC, while external monitoring will be carried out by the Program Management Consultant Resettlement Team. For the entire duration of projects under the MFF, the monitoring will pay special attention on the rehabilitation assistance being provided to severely affected and vulnerable households in the form of prioritization to project-related employment so that the projects' effectiveness in facilitating livelihood restoration can be fully assessed. In case of gaps or deficiency in the approach, ARS will propose corrective or supplemental actions in consultation with ADB.

A. Internal Monitoring

74. Internal monitoring will be carried out to assess the progress and results of LARP implementation and adjust the work program, if necessary. Indicators for internal monitoring will be those related to process and immediate outputs and results. Specific internal monitoring indicators are shown in Table 4.

Table 4: Internal Monitoring Indicators

Monitoring Indicators	Basis for Indicators
Budget and Timeframe	• Have all land acquisition and resettlement staff been appointed and mobilized for the field and office work on time?
	• Have capability building and training activities been completed on schedule?
	• Have resettlement implementation activities been achieved according to the agreed plan?
	• Are funds for resettlement being allocated to the resettlement agencies on time?
	• Have resettlement offices received the scheduled funds?
	• Have funds been disbursed to the affected families according to the LARP?
	• Has all land required been acquired in time for project implementation?
	• Have all DPs received complete entitlements according to numbers and categories of loss set out in the entitlements matrix?
	• Have all DPs received complete payments on time?
	• Have all DPs losing temporary land been compensated?
Delivery of DP Entitlements	• Have all DPs received the agreed transport costs, relocation costs, income substitution support and resettlement allowances, according to schedule?
	• Have all replacement land plots or leases been provided?
	• Is the DP occupying a new house?
	• Is restoration proceeding for social infrastructure and services?
	• Are DPs able to access schools, health services, cultural sites, and activities?
	• Are income and livelihood restoration activities (especially the provision of employment to severely affected and vulnerable households) being implemented as set out in the income restoration plan?
Consultation, Grievance and Special Issues	• Have the affected businesses received entitlements including transfer and payments for net losses resulting from lost business and stoppage of production?
	• Have consultations taken place as scheduled?
	• Have resettlement booklets and announcement been delivered?
	• How many DPs know their entitlements? How many know if they have been received?
	• Has any DP used the grievance redress procedures? What were the outcomes?
	• Have conflicts been resolved?

75. Internal monitoring will be done through: (i) review of census information for all DPs, (ii) consultation and informal interviews with DPs, (iii) in-depth case studies, (iv) sample surveys of DPs, and (v) community public meetings. The results will be reported to ADB through monthly progress reports. The SC will include in its regular progress report an update on the LAR related rehabilitation activities, temporary land acquisition and other emerging LAR issues, and provision of employment to severely affected and vulnerable households during implementation of civil works.

B. External Monitoring

76. External monitoring will be carried out by the Resettlement Team from the Program Management Consultant (PMC). Results of the external monitoring will be communicated to the ARS-PIU and ADB through a compliance monitoring report to be prepared at different stages – before award of civil works, before commencement of civil works and every 6 months until the completion of civil works.

77. The PMC will (i) review and verify internal monitoring reports prepared by the SC; (ii) review the socioeconomic baseline census information of pre-displaced persons; (iii) identify and select impact indicators; (iv) undertake impact assessment through surveys with displaced persons; (v) consult DPs, government officials, community leaders for preparing review report; and (vi) assess the resettlement efficiency, effectiveness, impact, and sustainability to draw lessons for preparation and implementation of future resettlement planning documents.

78. The external monitoring will be based on (i) the procedures and guidelines of ADB as set out in the ADB SPS (2009) and OM/FI March 2010; (ii) relevant laws, policies, and regulations in Azerbaijan; (iii) LARF and LARP for each project; and (iv) the general principle that DP's livelihood should be better or at least remain at the present level after completion of the project.

79. External monitoring will involve sample surveys, case studies, investigation of key problems, group interviews of important informants, follow-up visits, field observations, and analysis of data collected by local governments and ARS.

80. The following indicators will be monitored and evaluated in accordance with the principles, entitlements, and rehabilitation strategies and plans stated in this LARF. A tentative list of specific external monitoring indicators required for each project is in Table 5.

- Disbursement of entitlements to the DPs and enterprises/businesses: Compensation for housing, cultivated farmland, and employment as specified in the LARP will be detailed.
- Development of economic productivity: Reallocation of cultivated land, land restoration, job opportunities available to the DPs, number of DPs employed in project related jobs will be documented.
- Provision of alternative housing: The DPs must move into their alternative housing at least one month before the relocation. For those opting for self-construction, payment of compensation and provision of housing sites should be completed at least three months before the relocation. The compensation for construction of houses should be equivalent to the replacement cost. The DPs must receive as scheduled their entitlements regarding moving allowance and transportation allowance.
- Restoration of basic infrastructure and special facilities: All necessary infrastructure and special facilities should be restored at the resettlement sites at least up to a standard equal to the standard at the original location; the compensation for all infrastructure and special facilities should be sufficient to reconstruct it to the same quality.
- Level of satisfaction of DPs: The level of satisfaction of the DPs with various aspects of the resettlement program and the operation of the mechanisms for grievance redress will be reviewed and the speed and results of grievance redressing measures will be monitored.

- Standard of living: Throughout the implementation process, the trends in standards of living will be observed and the potential problems in the way of restoration of standards of living will be identified and reported. The monitor will carry out a comprehensive socioeconomic survey after the completion of resettlement implementation to document the standards of living and the conditions of the DPs after resettlement. The survey will be conducted annually for two years, or until most affected households have fully restored their living standards and income generation.
- Reemployment of affected staff and workers, and compensation of lost wages.
- Social adaptability and cohesion: Impacts on children, the elderly, and other vulnerable groups, public participation, DP's attitudes and reactions to post resettlement situation, number of complaints and appeal procedures and resolution, implementation of preferential policies, income restoration measures, and improvements in women's status will be described.
- Care and attention to vulnerable groups, especially those that will face hardships due to resettlement: Closely monitor living conditions of elderly, the handicapped, the poor, and other vulnerable groups after resettlement to ensure that no hardship is experienced. Benefit obtained by vulnerable and severely affected households in project related jobs will be assessed.
- Information on utilization and adequacy of resettlement funds.

Table 5: External Monitoring Indicators

Monitoring Indicator	Basis for Indicators
Basic Information on DP Households	<ul style="list-style-type: none"> • Location • Composition and structure: ages, educational and skill levels • Gender of household head • Ethnic group • Access to health, education, utilities, and other social services • Housing type • Land and other resource ownership and utilization patterns • Occupations and employment patterns • Income sources and levels • Agricultural production data (for rural households) • Participation in neighbourhood or community groups • Access to cultural sites and events
Benefit Monitoring	<ul style="list-style-type: none"> • Value of all asset forming entitlements and resettlement entitlements • What changes have occurred in terms of patterns of occupation, production, and resource use compared to the pre-project situation? • What changes have occurred in income and expenditure patterns compared to the pre-project situation? • What have been the changes in cost of living compared to the pre-project situation? • Have DPs' incomes kept pace with these changes? • What changes have taken place in key social and cultural parameters relating to living standards?
Restoration of Living Standards	<ul style="list-style-type: none"> • Were house compensations made free of depreciation, fees or transfer costs to the DPs? • Have perceptions of community been changed? • Have the DP achieved replacement of key social and cultural elements?
Restoration of Livelihood	<ul style="list-style-type: none"> • Were compensation payments free of deduction for depreciation, fees or transfer costs to the DP?

Monitoring Indicator	Basis for Indicators
Levels of DP Satisfaction	<ul style="list-style-type: none"> • Were compensation payments sufficient to replace lost assets? • Was sufficient replacement land available of suitable standard? • Did transfer and relocation payments cover these costs? • Did income substitution allow for re-establishment of enterprises and production? • Have enterprises affected received sufficient assistance to re-establish themselves? • Do jobs provided restore pre-project income levels and living standards? How many of the severely affected and vulnerable households actually benefitted from project-related job opportunities. • How much does the DP know about resettlement, procedures and entitlements? • Do they know if these have been met? • How do the DP assess the extent to which their own living standards and livelihoods • Have been restored? • How much does the DP know about grievance and conflict resolution procedures?
Effectiveness of Resettlement Planning	<ul style="list-style-type: none"> • How did resettlement implementers deal with unforeseen problems? • Were the DPs and their assets correctly enumerated? • Were land speculators assisted? • Was the time frame and budget sufficient to meet objectives? • Were entitlements too appropriate (wide or narrow)? • Were vulnerable groups identified and assisted?
Other Impacts	<ul style="list-style-type: none"> • Were there unintended environmental impacts? • Were there unintended impacts on employment or incomes?

XII. TRAINING IN IMPLEMENTATION OF THE LAND ACQUISITION AND RESETTLEMENT PLANS

81. Since 2007, ARS has received a number of training and gained hands-on experience on LARP preparation and implementation and over the past 2 years, its LAD has increased its staffing and resources to more effectively handle LAR-related activities for projects handled by ARS. However, there is still a need to further improve capacity for LAR planning and implementation for the Investment Program.

82. Related to this, upon the mobilization of the PMC, all concerned staff both at ARS-PIU and ARS-LAD and rayon akimats involved in land acquisition and resettlement activities will be oriented on the Program's LARF, ADB SPS (2009) and the GoA Land Acquisition for State Needs (2010). The training will cover the following topics: (i) principles and procedures of land acquisition, (ii) public consultation and participation, (iii) entitlements and compensation and assistance disbursement mechanisms, (iv) grievance redress, and (v) monitoring of resettlement operations. The training budget will be incorporated in the contract of the PMC.

XIII. RESETTLEMENT BUDGET AND FINANCING

83. All preparation and implementation costs of the resettlement plan, including cost of compensation and LAR administration, will be considered as an integral part of program costs and will be contributed by the Government of Azerbaijan. Each resettlement plan will include a budget section indicating (i) unit compensation rates for all affected items and allowances,

(ii) methodology followed for the computation of unit compensation rates, and (iii) a cost table for all compensation expenses including administrative costs and contingencies.

84. Finances for compensation, allowances, and administration of the preparation and implementation of resettlement plans will be provided by the Government of Azerbaijan as counterpart funds. Costs for external monitoring tasks can be allocated under the loan. In order to ensure that sufficient funds are available for LAR tasks, the local governments will allocate 100% of the cost of compensation at replacement cost and expected allowances estimated in each LARP plus 15% of contingencies before the implementation of the LARP.

85. ARS is responsible for the timely allocation of the funds needed to implement resettlement plans. ARS will need to closely coordinate with the MoF (as the control agency on LAR concerns) and the Cabinet of Ministers on the financing requirements for LAR activities in projects under the MFF. Allocations will be reviewed twice a year based on the budget requirements indicated by the LARPs.

86. As per LAR finance flows, the budget for compensation payments for various losses and rehabilitation assistance will be disbursed by ARS through the PIU directly to DPs in coordination with concerned local governments.

XIV. IMPLEMENTATION PROCESS OF LAND ACQUISITION AND RESETTLEMENT TASKS

87. Based on experience in Azerbaijan, the implementation of a LARP for an IR Category 'A' project may take up to several months. An international consultant firm will be hired by ARS to assist ARS-PIU and LAD in the implementation of the LARP. The DPs will be paid their due compensations at least 30 days prior to demolition of the structures. This time will allow them to dismantle and remove all salvageable material for rebuilding of houses and reestablish businesses. Structures built after the cut-off date can be demolished without paying compensation upon serving a two weeks' notice of eviction.

88. The basic LAR-related steps for the preparation and implementation of tranches and within tranches, subprojects are summarized in Table 6

Table 6: Process of Land Acquisition and Resettlement Tasks

Step	Action	Responsibility
A. Tranche Preparation		PIU, Consultants
1.	Subprojects identification	PIU, PMC
2.	Review and update the LARF	LAD, PMC
3.	Prepare an activity plan detailing LARP tasks and schedules for LAD, consultants, local governments, and NGOs. Initiate formation of coordination committees at the project level	LAD, PMC
B. Due Diligence on LAR		ARS
1.	Assess the poverty and social impacts of the Project	PMC
2.	Review LAR implications of any design changes or update	PMC
3.	In case of new LAR issues, prepare surveys forms for Census and DMS, train local census and DMS teams, and establish coordination with relevant local government agencies.	LAD, PMC
4.	Collect cadastral and parcellary maps of the project area	LAD, PMC, State Committee on Land and Cartography
5.	Verify land records in affected areas, update cadastral maps and carry out impacts and valuation surveys – DMS.	Local governments, LAD, PMC
6.	Conduct public consultations.	LAD, local governments

Step	Action	Responsibility
7.	Negotiate with DPs.	PMC, NGOs
8.	Integrate data from census into the LARPs.	LAD, local governments
9.	Submit LARP updated or addendum to ARS, local governments, and ADB for approval.	PMC
C.	Implementation of Land Acquisition and Resettlement Plan	PMC, LAD, Government, ADB
1.	Distribute LARP update and information pamphlets in Azeri in affected communities; posting of LARP update (addendum) in English on the ADB website.	LAD, local governments, ADB
2.	Approve contract awards	ADB
3.	Distribute Relocation Notices to DPs.	PIU, LAD, SC
4.	Award cheques for land compensation.	PIU, LAD, SC, DPs
5.	Award cheques for other compensation and assistance/ rehabilitation.	PIU, LAD, SC, DPs
6.	Demolish and relocate affected structures and assets.	LAD
7.	Review LARP implementation	LAD, PIU, SC, ADB
8.	If implementation of resettlement plans found satisfactory, notice to proceed for civil works is issued.	ADB, PIU
D.	Post-Implementation Task	
1.	Externally monitor LARP update implementation (including provision of local employment through civil works).	PMC
E.	Cyclical and Continuous Tasks	
1.	Internal monitoring, quarterly reporting	SC
2.	External monitoring, semiannual reporting to ADB	PMC
3.	Grievances redressal and law suits	LAD, PIU, SC, Court
4.	Interagency coordination and communication with DPs	PIU, LAD, local governments

LARF Appendix A

Outline of a Land Acquisition and Resettlement Plan

1. **LAR issues for the project**
Describes the scheme activities and items requiring LAR; alternative options, if any, considered to minimize land acquisition effects; and why remaining effects are unavoidable.
2. **Socioeconomic background of the project area**
describes the socioeconomic profile and living conditions of displaced persons and identifies vulnerable groups that may require special attention.
3. **Scope of land acquisition and resettlement**
describes the preparation of the impacts (who carried it out and when it was initiated) and provides a full assessment of each type of impact and a census of affected peoples. The chapter also includes a description of the methodology followed to determine unit-compensation rates for each affected item and subsidy/allowance.
4. **Objectives, policy framework, and entitlements**
outlines the eligibility and compensation framework for the scheme.
5. **Public participation, grievance redress and disclosure**
summarizes procedures for redress of grievances by people affected and describes the consultation/participation process and grievance redress that occurred in the subproject at hand.
6. **Institutional framework**
outlines the institutional arrangements. It includes the following issues: responsibilities for main tasks and for planning, negotiating, consulting, approving, coordinating, implementing, financing, monitoring, and evaluating land acquisition and resettlement.
7. **Compensation, relocation, and income restoration**
outlines the income restoration measures to be implemented.
8. **Resettlement budget and financing**
provides the unit compensation rate for each affected item and assesses the LAR budget for the scheme. The LAR budget will include land acquisition and eventual land acquisition costs, amounts due for crop compensation and for the subsidies and allowances, monitoring and evaluation costs, and administrative costs and will be adjusted for inflation and applicable taxes.
9. **Implementation schedule**
provides a time schedule showing the LAR process and linking LAR tasks with civil works implementation.
10. **Monitoring and evaluation**
specifies arrangements for routine and independent monitoring and evaluation activities.

LARF Appendix B

Draft Terms of Reference (TOR) for External Resettlement Monitoring

1.0 Introduction

1. Projects financed under the Second Road Network Development Program are subject to both internal and external resettlement monitoring. Internal monitoring will be done by the Supervision Consultant (SC) to be engaged for each project. The Program Management Consultant (PMC) will be responsible for external resettlement monitoring. Related to this, the PMC is expected to have the necessary resettlement expertise to effectively undertake this task for the MFF.

2. The external monitoring will be based on (i) the procedures and guidelines of ADB as set out in the ADB SPS (2009) and OM/FI March 2010; (ii) relevant laws, policies, and regulations in Azerbaijan; (iii) LARF and LARP for each project; and (iv) the general principle that DP's livelihood should be better or at least remain at the present level after completion of the project.

2.0 Objectives of External Resettlement Monitoring

3. External resettlement monitoring aims to provide an independent review of resettlement implementation to determine whether intended goals are being achieved, and if not, what corrective actions are needed. The objectives of the external monitoring will be two-fold:

- (i) verify that resettlement has been implemented in compliance with the Land Acquisition and Resettlement Framework (LARF) for the MFF and the Land Acquisition and Resettlement Plan (LARP) for the specific project (including but not limited to the provision of rehabilitation assistance in the form of prioritization of vulnerable and severely affected households in project related jobs; and measures to address temporary and emerging LAR impacts during construction); and,
- (ii) assess if displaced persons (DPs) were able to at least restore their livelihoods and living standards.

3.0 Scope of Work

4. Tasks related to external monitoring include the following:

- (i) Review of the list of persons who incur damages and may be eligible to compensation (including temporary impacts during construction);
- (ii) Review of the LARP payment of compensations, procedures for approving and payment of compensations, and preparation of recommendations on their compliance with the ADB SPS (2009) and the agreed LARF;
- (iii) Participation in consultative meetings on land acquisition and grievance redress;
- (iv) Review of the timely allocation of funds for compensations; recommend adjustments;
- (v) Review land acquisition timelines and terms of temporary land acquisition; recommend adjustment of timelines/terms;
- (vi) Review the project approach to identifying and prioritizing able members of vulnerable and severely affected households in project related jobs and

recommend measures for improving job and other livelihood related benefits from the project

- (vii) Obtain feedback from DPs on the compensation payments and livelihood restoration assistance that they received from the project.

5. Results of the external monitoring will be communicated to the ARS-PIU and ADB through a compliance monitoring report to be prepared at different stages – before award of civil works, before commencement of civil works and every 6 months until the completion of civil works. The final report will be submitted within 3 months after the completion of civil works to verify if all temporarily used lands have been restored and make an overall evaluation of the LAR activities for the project.

- a. **Pre-Construction**– Prior to the award of the civil works contract, the external monitor should determine completion of the remaining compensation and land registration activities described in the LARP to validate the availability of land for the civil works, identify any remaining LAR-issues, verify based on detailed design if all permanent acquisition have been properly covered, ensure that DPs and local communities are fully aware of the LARF and LARP provisions for rehabilitation assistance and grievance redress. The consultant will also firm up the approach for rehabilitation assistance to guide the contractor on the requirement for prioritizing severely affected and vulnerable households in project related employment. The LARP completion/compliance report will be a condition for issuing no-objection for the award of the civil works contract.
- b. **Commencement of Civil Works** – The monitoring will review the requirement for temporary acquisition during construction and the arrangements made by the contractor to address these impacts, assess contractor's awareness of the LARF provisions (including compensation provisions and grievance redress) and capacity to address emerging LAR issues during construction and recommend measures to address identified gaps, and review the initial implementation of the employment prioritization program for severely affected and vulnerable households.
- c. **Semi-annual Monitoring/Reporting** – The monitoring will review the effectiveness and degree of reach of the employment generation strategy for vulnerable and severely affected households, and measures to address temporary and emerging LAR issues during implementation
- d. **Post LARP Evaluation** -Upon the completion of the civil works, an evaluation shall be made as to what extent the LARP was able to accomplish its objectives. The evaluation shall assess the changes that have occurred on the DPs, identify impoverishment risks, and potential differential impact or benefit that men and women DPs experienced from the resettlement activities. The evaluation will also seek to obtain DPs feedback on the rehabilitation assistance provided under the project, and assess the efficiency, and effectiveness of the LARP to draw lessons for future LARP planning and implementation.

4.0 Implementation Arrangement

6. The PMC Resettlement Specialists will report to the PMC Team Leader, who in turn will report to the PIU Project Director. Close coordination with the Supervision Consultants (SC) and the civil works contractor will also be needed.

5.0 Reporting Requirements

7. The following reports should be submitted to ARS and ADB:

- Pre-Contract Award LARP Compliance Report
- Pre-Mobilization LARP Compliance Report
- Semi Annual Monitoring Report
- Final LARP Evaluation Report (within 3 months after completion of civil works)

8. External monitoring will involve sample surveys, case studies, investigation of key problems, group interviews of important informants, follow-up visits, field observations, and analysis of data collected by local governments and ARS.

9. The following indicators will be monitored and evaluated in accordance with the principles, entitlements, and rehabilitation strategies and plans stated in this LARF. A tentative list of specific external monitoring indicators required for each project is in Table 1.

- Disbursement of entitlements to the DPs and enterprises/businesses: Compensation for housing, cultivated farmland, and employment as specified in the LARP will be detailed.
- Development of economic productivity: Reallocation of cultivated land, land restoration, job opportunities available to the DPs, number of DPs employed in project related jobs will be documented.
- Provision of alternative housing: The DPs must move into their alternative housing at least one month before the relocation. For those opting for self-construction, payment of compensation and provision of housing sites should be completed at least three months before the relocation. The compensation for construction of houses should be equivalent to the replacement cost. The DPs must receive as scheduled their entitlements regarding moving allowance and transportation allowance.
- Restoration of basic infrastructure and special facilities: All necessary infrastructure and special facilities should be restored at the resettlement sites at least up to a standard equal to the standard at the original location; the compensation for all infrastructure and special facilities should be sufficient to reconstruct it to the same quality.
- Level of satisfaction of DPs: The level of satisfaction of the DPs with various aspects of the resettlement program and the operation of the mechanisms for grievance redress will be reviewed and the speed and results of grievance redressing measures will be monitored.
- Standard of living: Throughout the implementation process, the trends in standards of living will be observed and the potential problems in the way of restoration of standards of living will be identified and reported. The monitor will carry out a comprehensive socioeconomic survey after the completion of resettlement implementation to document the standards of living and the conditions of the DPs after resettlement. The survey will be conducted annually for two years, or until most affected households have fully restored their living standards and income generation.
- Reemployment of affected staff and workers, and compensation of lost wages.
- Social adaptability and cohesion: Impacts on children, the elderly, and other vulnerable groups, public participation, DP's attitudes and reactions to post

resettlement situation, number of complaints and appeal procedures and resolution, implementation of preferential policies, income restoration measures, and improvements in women's status will be described.

- Care and attention to vulnerable groups, especially those that will face hardships due to resettlement: Closely monitor living conditions of elderly, the handicapped, the poor, and other vulnerable groups after resettlement to ensure that no hardship is experienced. Benefit obtained by vulnerable and severely affected households in project related jobs will be assessed.
- Information on utilization and adequacy of resettlement funds.

Table 1: External Monitoring Indicators

Monitoring Indicator	Basis for Indicators
Basic Information on DP Households	<ul style="list-style-type: none"> • Location • Composition and structure: ages, educational and skill levels • Gender of household head • Ethnic group • Access to health, education, utilities, and other social services • Housing type • Land and other resource ownership and utilization patterns • Occupations and employment patterns • Income sources and levels • Agricultural production data (for rural households) • Participation in neighbourhood or community groups • Access to cultural sites and events
Benefit Monitoring	<ul style="list-style-type: none"> • Value of all asset forming entitlements and resettlement entitlements • What changes have occurred in terms of patterns of occupation, production, and resource use compared to the pre-project situation? • What changes have occurred in income and expenditure patterns compared to the pre-project situation? • What have been the changes in cost of living compared to the pre-project situation? • Have DPs' incomes kept pace with these changes? • What changes have taken place in key social and cultural parameters relating to living standards?
Restoration of Living Standards	<ul style="list-style-type: none"> • Were house compensations made free of depreciation, fees or transfer costs to the DPs? • Have perceptions of community been changed? • Have the DP achieved replacement of key social and cultural elements?
Restoration of Livelihood	<ul style="list-style-type: none"> • Were compensation payments free of deduction for depreciation, fees or transfer costs to the DP? • Were compensation payments sufficient to replace lost assets? • Was sufficient replacement land available of suitable standard? • Did transfer and relocation payments cover these costs? • Did income substitution allow for re-establishment of enterprises and production? • Have enterprises affected received sufficient assistance to re-establish themselves? • Do jobs provided restore pre-project income levels and living standards? How many of the severely affected and vulnerable households actually benefitted from project-related job opportunities.
Levels of DP Satisfaction	<ul style="list-style-type: none"> • How much does the DP know about resettlement, procedures and entitlements?

Monitoring Indicator	Basis for Indicators
Effectiveness of Resettlement Planning	<ul style="list-style-type: none"> • Do they know if these have been met? • How do the DP assess the extent to which their own living standards and livelihoods • Have been restored? • How much does the DP know about grievance and conflict resolution procedures? • How did resettlement implementers deal with unforeseen problems? • Were the DPs and their assets correctly enumerated? • Were land speculators assisted? • Was the time frame and budget sufficient to meet objectives? • Were entitlements too appropriate (wide or narrow)? • Were vulnerable groups identified and assisted?
Other Impacts	<ul style="list-style-type: none"> • Were there unintended environmental impacts? • Were there unintended impacts on employment or incomes?