



AZRM/18-06-082

28 June 2018

Mr. Samir Sharifov
Minister/ADB Governor
Ministry of Finance
Republic of Azerbaijan

Dear Governor:

Subject: **Loan Nos. 2921/3144-AZE: Second Road Network Development Investment Program – Tranches 1 and 2**
—Amendments to Framework Financing Agreement and Loan Agreements

1. We refer to (i) the Framework Financing Agreement dated 16 August 2012 between the Republic of Azerbaijan ("Borrower") and Asian Development Bank ("ADB") establishing the terms of the Multitranche Financing Facility (MFF) to finance projects under the above-referenced Investment Program ("FFA"), (ii) the Loan Agreement dated 22 April 2013 between the Borrower and ADB for Tranche 1 of the MFF (as amended by the amendment letter dated 29 May 2017, "Tranche 1 Loan Agreement") and (iii) the Loan Agreement dated 29 December 2014 between the Borrower and ADB for Tranche 2 of the MFF ("Tranche 2 Loan Agreement", and together with the Tranche 1 Loan Agreement, the "Loan Agreements"). All capitalized terms used but not defined herein shall have the meaning given thereto in the Loan Agreements, unless the context requires otherwise.

2. Following a request from the Borrower, ADB approved changes in the scope of the MFF and the Projects under Tranches 1 and 2 of the MFF to include (i) rehabilitation of sections of two priority national roads (the M5/R57 and R32) and (ii) installation of a tolling system along the M3 motorway. To give effect to the changes, ADB proposes to amend the FFA as follows:

(a) item (a) of paragraph 2 under the heading "MFF Investment" (page 1 of the FFA) shall be revised in its entirety to provide as follows:

"(a) a road infrastructure development component to construct a total of approximately 63 km of road sections on the new Alyat–Masalli motorway and rehabilitate sections of the R32 and M5/R57 roads, comprising (i) an approximately 30 km road section between the cities of Masalli and Jalilabad and approximately 70 km of the R32 Ujar–Zardab–Agjabedi road (Project 1) and (ii) an approximately 33 km road section between the cities of Jalilabad and Sorsulu, approximately 55 km of the M5 (Yevlakh–Azagatala–Georgian border) road and connecting R57 (from M5 to Shaki) road, and installation of a tolling system along the M3 motorway (Project 2)";

- (b) items (a) of paragraph 2 under the heading "Multitranche Financing Facility" (page 1 of the FFA) shall be revised in its entirety to provide as follows:

"(a) construction of a total of approximately 63 km of road sections on the new Alyat–Masalli motorway and rehabilitation of sections of the R32 and M5/R57 roads, comprising (i) an approximately 30 km road section between the cities of Masalli and Jalilabad and approximately 70 km of the R32 Ujar–Zardab–Agjabedi road (Project 1) and (ii) an approximately 33 km road section between the cities of Jalilabad and Sorsulu, approximately 55 km of the M5 (Yevlakh–Azagatala–Georgian border) road and connecting R57 (from M5 to Shaki) road, and installation of a tolling system along the M3 motorway (Project 2)";

- (c) the Design and Monitoring Framework for the Facility in Schedule 2 to the FFA shall be replaced in its entirety with the revised Design and Monitoring Framework for the Investment Program attached to this letter agreement;

- (d) in Schedule 1 (Facility Constituents), paragraph 10 shall be revised in its entirety to provide as follows:

"10. The proposed investment will focus on (i) construction of approximately 63 km of 4-lane road sections on the new Alyat–Masalli motorway, (ii) rehabilitation of sections of the R32 road (approximately 70 km) and M5/R57 road (approximately 55 km) and (iii) installation of a tolling system along the M3 motorway. The summary of the Investment Program and the details of tranches are in Tables 4 and 5, respectively"; and

- (e) in Schedule 4 (Selection Criteria and Approval Process for Projects), the first sentence of paragraph 1 shall be revised in its entirety to provide as follows:

"The road infrastructure development projects to be financed under the Facility shall comprise the following: (a) construction an approximately 30 km road section between the cities of Masalli and Jalilabad and rehabilitation of approximately 70 km of the R32 Ujar–Zardab–Agjabedi road (Project 1) and (ii) construction of an approximately 33 km road section between the cities of Jalilabad and Sorsulu, rehabilitation of approximately 55 km of the M5 (Yevlakh–Azagatala–Georgian border) road and connecting R57 (from M5 to Shaki) road, and installation of a tolling system along the M3 motorway (Project 2)".

3. To also give effect to the changes, ADB proposes that the Loan Agreements be amended as follows:

Tranche 1 Loan Agreement

- (a) in paragraph 2 of Schedule 1, a new sub-paragraph (d) shall be added as follows:

"(d) rehabilitation of approximately 70 km of the R32 Ujar–Zardab–Agjabedi road"; and

Tranche 2 Loan Agreement

(b) in paragraph 2 of Schedule 1, a new sub-paragraph (d) will be added as follows:

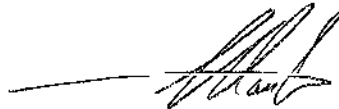
"(d) rehabilitation of approximately 55 km of the M5 (Yevlakh–Azagatala–Georgian border) road and connecting R57 (from M5 to Shaki) road and installation of a tolling system along the M3 motorway".

4. Save and except to the extent set out above, the FFA and Loan Agreements remain unchanged.

5. Pursuant to ADB's Public Communications Policy (2011) (PCP) on disclosure and exchange of information, the amendments to the FFA and Loan Agreements will be posted on ADB's website within 2 weeks from the date that the amendments become effective, after removing any information that falls within the PCP exceptions as specified by the Borrower.

6. Please indicate the Borrower's concurrence to the amendments set out in paragraphs 2 and 3 of this letter agreement and to the terms of this letter agreement by countersigning each of the two original of this letter agreement in the space indicated below. Please retain one signed original of this letter agreement for your records and return the other to ADB. The proposed amendments shall take effect on the date of receipt by ADB of a signed original of this letter agreement.

Sincerely yours,

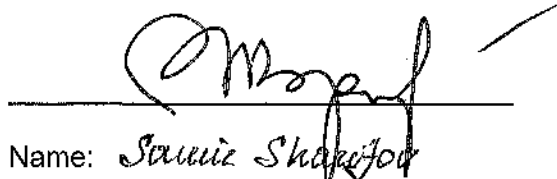


Nariman Mannapbekov
Country Director

A. Accepted and agreed.

B. Confirmed that the amendments to the FFA and Loan Agreements do not contain information falling within the PCP exceptions.

For and on behalf of
REPUBLIC OF AZERBAIJAN



Name: *Samir Shakhmurov*
Designation: *Minister of Finance*
Date: *17.08.2018*

cc: Mr. Saleh Mammadov, Chairman, State Agency of Azerbaijan Automobile Roads
Mr. Dong-Soo Pyo, Director, CWTC, ADB

REVISED DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Impact the Program is Aligned with:

Trade with neighboring countries expanded and economic growth of Azerbaijan improved. (Program-defined)

Results Chain	Performance Indicators with Targets and Baseline	Data Sources and Reporting Mechanisms	Risks
Outcome Efficient, adequate, safe, and sustainable road corridors in Azerbaijan achieved	By 2021 a. Freight traffic increased by 35% along the project roads (2010 baseline: 11,325 million ton-km) b. Passenger traffic increased by 25% along the project roads (2010 baseline: 16,633 million passenger-km) c. Funding for road maintenance increased to at least \$350 million (2011 baseline: \$200 million) d. Road traffic accidents reduced by 10% along the project roads (2011 baseline: 2,890 number of accidents) e. About 2.8 million beneficiaries along the project roads	a-e. MFF and project progress and completion reports of the AAY a,b,d, e. The AAY annual surveys, Statistical Yearbook of Azerbaijan c. Road subsector budget and expenditure records	Rapid deterioration of the road network caused by weak axle-load controls, weather and climatic conditions
Outputs 1. A new motorway between Masalli and Shorsulu constructed, and key sections of R32 and M5/R57 rehabilitated	By 2020 1.a. 63 km of the new motorway Masalli–Shorsolu constructed with international roughness index less than 5 meters per km (2010 baseline: zero) 1.b. 70 km of R32 and 55 km of M5/R57 rehabilitated with international roughness index less than 5 meters per km (2017 baseline: IRI = >5)	1a-b. MFF and project progress, completion reports of the AAY and AAY annual surveys	Cost overruns result in less work accomplished than designed Delays caused by erratic weather condition in the project sites

2. Program management and implementation capacities of the AAY improved	2.a. All civil works contracts awarded and contractors mobilized as planned (2010 baseline: not applicable)	2a. AAY annual surveys, AAY project progress reports	
3. Transport sector governance improved	<p>By 2020</p> <p>3.a. Road safety audits conducted and improvement designs ready for at least 50% of ADB-financed roads (2010 baseline: None)</p> <p>3.b. Road standards and specifications, including pavement layer design standards and specifications finalized (2010 baseline: None)</p> <p>3.c. Feasibility study on installing a tolling system along M3 motorway submitted for government's approval (2017 baseline: None)</p> <p>3.d. Tolling facilities and structures along M3 motorway operational (2017 baseline: None)</p>	3a-d. AAY annual surveys, AAY project progress reports	AAY delays required changes in business practices for sustainable transportation

Key Activities with Milestones

Tranche 1:

- 1.1 Procurement of civil works and consulting services commenced in September 2012.
- 1.2 Civil works and supervision consultant contracts awarded in December 2013 and completed in August 2017.
- 1.3 Program management consultants recruited in December 2013.
- 1.4 Award contract for civil works and supervision consultant for R32 by Q3 2018.
- 1.5 Complete R32 contracts by Q4 2020.

Tranche 2:

- 2.1 Civil works contracts awarded in August 2015.
- 2.2 Complete civil works by January 2019.
- 2.3 Recruit consultants for transport sector governance and deliver agreed outputs from 2018-2020.
- 2.4 Award contract for civil works and supervision consultant for M5/R57 by Q3 2018.
- 2.5 Complete M5/R57 contracts by Q4 2020.
- 2.6 Complete the feasibility study on tolling system by Q4 2018.
- 2.7 Complete the installation of the tolling facilities and structures by Q4 2020.

Inputs

ADB: \$500 million (OCR)
Government: \$125 million
Total: \$625 million

AAY = State Agency of Azerbaijan Automobile Roads, IRI = international roughness index, km = kilometer, MFF = multitranchise financing facility, OCR = ordinary capital resources.