

TAR: AZE 39030

# Technical Assistance to the Republic of Azerbaijan for Transport Sector Development Strategy

April 2005

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 28 March 2005)

|               |   |                          |
|---------------|---|--------------------------|
| Currency Unit | – | Azerbaijan manat/s (AZM) |
| AZM1.00       | = | \$0.0002                 |
| \$1.00        | = | AZM4,859                 |

## ABBREVIATIONS

|         |   |  |
|---------|---|--|
| ADB     | – | Asian Development Bank                                       |
| ASR     | – | Azerbaijan State Railway                                     |
| EBRD    | – | European Bank for Reconstruction and Development             |
| GDP     | – | gross domestic product                                       |
| IFI     | – | international financial institutions                         |
| MDG     | – | Millennium Development Goals                                 |
| MOT     | – | Ministry of Transport  |
| RTSD    | – | Road Transport Service Department                            |
| SPPRED  | – | State Program for Poverty Reduction and Economic Development |
| TA      | – | technical assistance   |
| TRACECA | – | Transport Corridor Europe, the Caucasus, Asia                |

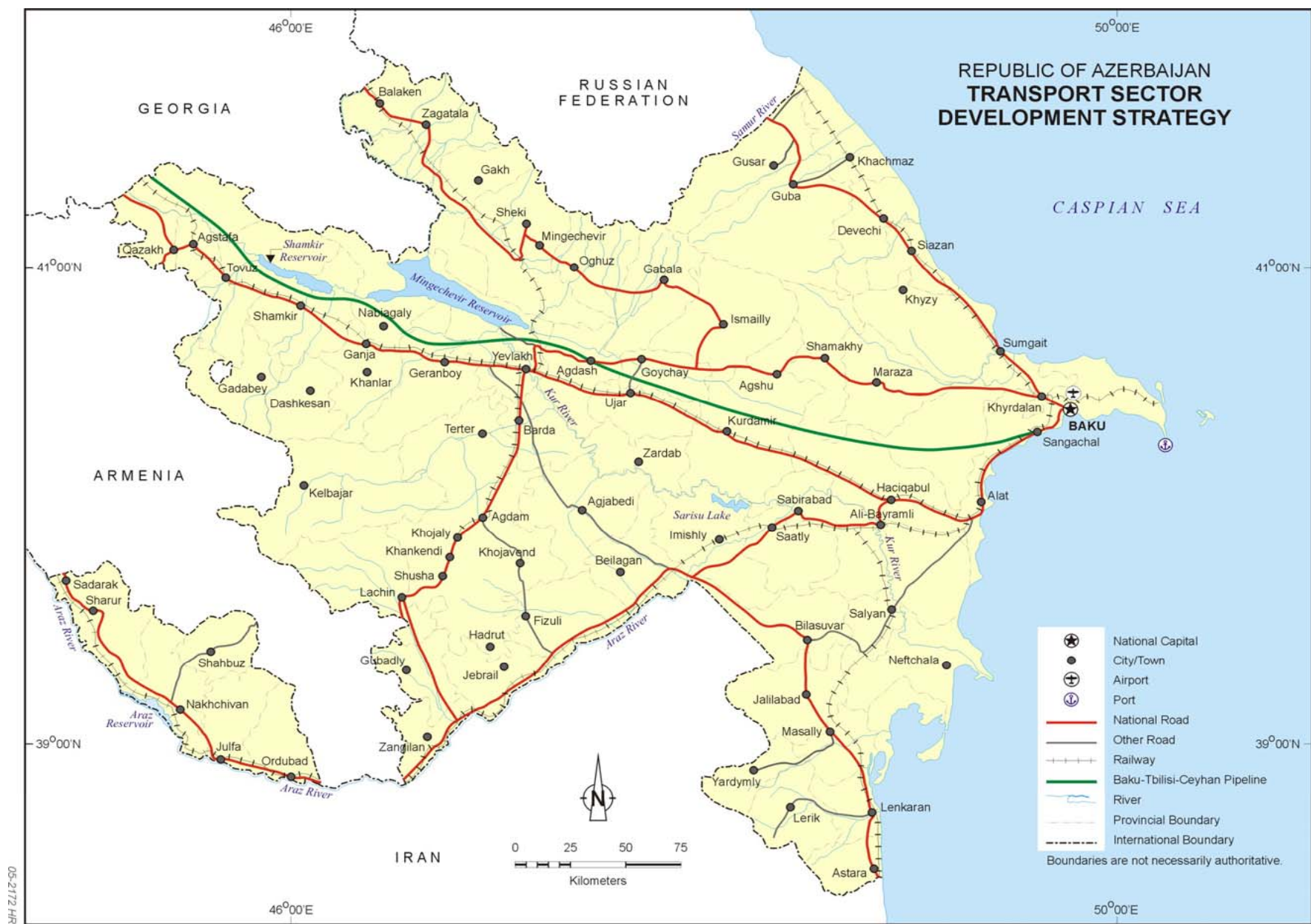
## TECHNICAL ASSISTANCE CLASSIFICATION

|                          |   |  |
|--------------------------|---|--|
| Targeting Classification | – | General intervention                               |
| Sector                   | – | Transportation and communication                   |
| Subsector                | – | Multimodal transport and sector development        |
| Theme                    | – | Sustainable economic growth                        |
| Subtheme                 | – | Promoting economic efficiency and enabling markets |

## NOTES

- (i) The fiscal year of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2005 ends on 31 December 2005.
- (ii) In this report, "\$" refers to US dollars.

|  |
|--|
| <p>This report was prepared by H. Masood, Transport and Communications Division,<br/>East and Central Asia Department.</p> |
|--|



## I. INTRODUCTION

1. In 2004, the transport sector accounted for 7% of Azerbaijan's gross domestic product (GDP),<sup>1</sup> and its importance to the country's growing economy is steadily increasing. The sector contributes significantly to regional cooperation, and facilitates the development of international trade and transit traffic. As part of the famed silk route, Azerbaijan offers the most feasible passage connecting Central Asia and the People's Republic of China (PRC) with Europe. With its rapidly developing pipeline infrastructure, Azerbaijan also plays a critical role in transporting oil and oil products from the Caspian Sea to the Black Sea and Europe. The transport sector is crucial to the domestic economy as it links the rural population with urban and international markets. More effective transport infrastructure can improve the economy and reduce poverty.

2. The growing demand for freight transport is met by railways (35%), sea (30%), roads (28%), and pipeline (7%). Domestic passenger traffic uses roads (78%), air (9%), metro (8%), and railways (5%). Air transport is used primarily for international travel, and to access the Nakhichevan region which is separated from Azerbaijan due to past conflicts with Armenia.<sup>2</sup> Nakhichevan is accessible by road through Iran.

3. Despite healthy GDP growth in recent years, fueled by increasing income from the oil and gas sectors, poverty remains widespread due to political issues and conflicts in the early years of independence.<sup>3</sup> In 2001, the Government initiated the State Program on Poverty Reduction and Economic Development (SPPRED). The poverty reduction strategy outlined in the SPPRED include, among others, improvement of road infrastructure. The rapid growth of the oil and gas sectors, and the consequent decline in agricultural and industrial sectors, changed the demand for transport. Improved roads could help reduce poverty by providing access to the rural poor ensuring more balanced development. In addition, policy and institutional reforms, combined with planned infrastructure development in the transport sector, would encourage private sector participation, leading to job opportunities and poverty reduction.

4. The Government has requested technical assistance (TA) from the Asian Development Bank (ADB) for the transport sector development strategy. The TA<sup>4</sup> was not included in ADB's country strategy and program update 2005–2006 for Azerbaijan,<sup>5</sup> as it was identified later. It is now part of the revised 2005 loan and TA program. Management has approved the concept paper for the TA. The Fact-Finding Mission visited Azerbaijan 5–9 February 2005 to formulate the TA. The Mission reached agreement with the Government on the objectives, scope, cost estimates, financing plan, implementation arrangements, and terms of reference for consultants for the TA. The design and monitoring framework is in Appendix 1.

## II. ISSUES

5. The Government has prioritized the development of the two major road transport corridors. The East-West corridor is part of the famed silk route connecting the PRC and Central Asia to Europe. The North-South corridor connects Baku to the Russian Federation in the north, and to Iran and beyond in the south. With assistance from international financial institutions

---

<sup>1</sup> Based on 2004 figures in the *Azerbaijan Monthly Statistical Review 2005*.

<sup>2</sup> The conflicts occurred in the late 1980s and early 1990s.

<sup>3</sup> The incidence of poverty was 46.7% in 2002. The figure was higher in urban areas.

<sup>4</sup> The TA first appeared in *ADB Business Opportunities* (Internet edition) on 18 February 2005.

<sup>5</sup> ADB. 2004. *Country Strategy and Program Update (2005–2006): Azerbaijan*. Manila.

(IFIs),<sup>6</sup> financing for improving the East-West corridor is nearly complete. Negotiations are under way with IFIs for the northern (Baku-Russian border) section of the North-South corridor.<sup>7</sup> For the southern section (Baku-Iranian border), the Government has reached an understanding with Iran for partial funding, and is seeking assistance from ADB and other IFIs. The Road Transport Service Department (RTSD)<sup>8</sup> is keen to upgrade these transport corridors to category I (dual carriageway with four lanes) in anticipation of heavy international and transit traffic. The Government is aware of the need to improve the secondary and tertiary road infrastructure that provides in-country links, as well as access and opportunities to the large rural population. Road infrastructure development plans should be linked closely to appropriate policy reforms to (i) rationalize road-user charges and maintenance funding, (ii) ensure effective maintenance operations, (iii) control vehicle overloading, (iv) minimize environment and social impacts, and (v) enhance road safety.<sup>9</sup>

6. The large Azerbaijan State Railway (ASR) network of about 3,000 kilometers once operated effectively as part of the Russian railway system. However, it has suffered since independence due to a lack of adequate maintenance facilities and spare parts. The rolling stock is similarly affected. ASR is planning to rehabilitate the track, and replace or restore the rolling stock. The European Union, under its program for Transport Corridor Europe-the Caucasus-Asia (TRACECA), and the European Bank for Reconstruction and Development (EBRD) are providing TA and financing for investment projects to improve rolling stock and maintenance facilities. The Government is considering upgrading the tracks to European standards to enable trains to operate across borders. The current conditions are not conducive for efficient operations, resulting in lower income and financial constraints. Private sector participation in passenger operations should be considered, as well as reliance on market principles for tariff policies. Though railway freight operations are dominated by oil and oil products, ASR insists that demand will not slacken when the Baku-Tbilisi-Ceyhan oil pipeline becomes operational in 2005.

7. National carrier Azerbaijan Airlines, which operates on a commercial basis, dominates air transport. It is planning a major expansion of its operations. Though a few private airlines are in business, their operations are restricted by laws governing air transport.<sup>10</sup> The Government is reviewing legislation aimed at reducing these restrictions to allow private airlines to operate more freely under a regulatory framework. The Government also is using its own resources to rehabilitate and upgrade major airports, including terminal buildings, runways, traffic control and air navigation facilities, and security.

8. State-owned Caspian Shipping monopolizes sea transport and operates independently. The Government is planning a major expansion of its operations, including the addition of large oil tankers. The Baku International Port is an autonomous entity responsible for the operation, maintenance, and development of four major terminals. The TRACECA program provides

---

<sup>6</sup> The European Bank for Reconstruction and Development (EBRD), Islamic Development Bank, Kuwait Fund, World Bank, Saudi Fund, and ADB are the major development partners in the road subsector.

<sup>7</sup> EBRD, Czech EXIM Bank, and Bank National Paribas.

<sup>8</sup> RTSD is responsible for developing and maintaining the major road network in Azerbaijan.

<sup>9</sup> The ongoing World Bank-financed Highway Rehabilitation Project (approved in 2001) includes TA for institutional strengthening and capacity building in the road subsector. Specifically, the TA includes road inventory and classification, planning and management, technical standards and/or specifications, financial management, quality assurance system, traffic safety, and performance assessment. The proposed ADB-financed East-West Road Corridor Improvement Project, which the Board is expected to consider this year, includes an institutional strengthening component covering road maintenance, axle load control, road safety, environmental and social management, and project management.

<sup>10</sup> The Transport Law was enacted on 11 June 1999.

assistance for technical support, capacity building, development of port facilities, and provision of port equipment. The Ministry of Transport (MOT) reports that the port needs communications, navigational, and search-and-rescue facilities.

9. Urban road transport is fully privatized as almost all public bus and trucks are private-owned. However, the transport fleets are outdated, and modern vehicles need to be introduced to improve operational efficiency and reduce pollution. The city-owned underground metro serves about 26% of the Baku population. Like the railways, however, its performance is declining due to the lack of maintenance facilities and spare parts. Resource constraints restrict the much-needed rehabilitation and expansion necessary to overcome traffic congestion and pollution.

10. All transport-related ancillary services, including freight forwarders, are private. The Freight Forwarders Association is well established, and quite effective in dealing with the Government. Privatization is high on the Government's reform agenda for the transport sector. The Government has adopted a gradual approach whereby state-owned enterprises (railway, airline, and shipping) initially will be restructured as joint stock companies. The Government is separating the regulatory and commercial functions of Azerbaijan Airline and Caspian Shipping. The regulatory mechanisms and legislation are being prepared. This process will allow the establishment of regulatory institutions and will promote greater private sector involvement, including investment in transport infrastructure.

11. Because of its location, Azerbaijan is the focal point for international transit trade between the PRC, Central Asia, and Europe. It also connects Europe to the Middle East. The Government is signatory to a number of bilateral and multilateral agreements with neighboring countries and international organizations for facilitating international transport through Azerbaijan. To monitor international transit traffic, the Government plans to develop a logistics center.

12. Due to steady economic growth and changing needs in the transport sector, the institutional requirements continue to evolve. The Government has launched several initiatives to reform institutions, including establishing MOT. However, improvements in human resource capacity in the transport sector must accompany these changes. Government officials, construction and consulting firms, transport operators, and consumers have limited knowledge of (i) transport policies and regulations needed for a market economy, (ii) management of commercial transport operations, (iii) new technologies in construction and maintenance of transport infrastructure, and (iv) methodologies for evaluating transport investment projects. Appropriate measures are needed to strengthen human resource capacity in the sector.

13. The Government is preparing a 10-year program for transport sector development, and is keen for ADB's assistance in this area. MOT feels that giving its staff an opportunity to work with international experts will develop much-needed capacity in transport planning, and this will go a long way in enabling MOT to develop transport sector plans indigenously. The proposed TA will help MOT achieve this objective. Three aspects will be critical in formulating the strategy. First, public consultations are necessary to ensure strategy relevance and effectiveness. Second, the strategy will adopt a multimodal transport approach, and provide directions for future activities from the perspective of an integrated transport sector rather than individual modes of transport. Third, a link between the strategy and resources is fundamental to success. The new transport strategy will identify future sector priorities and their financing requirements for which must be reflected in the Government's medium-term fiscal framework.

14. The implementation period for SPPRED ends in 2005. The Government plans to develop a 10-year national poverty reduction strategy that will focus on achieving the Millennium Development Goals (MDGs).<sup>11</sup> The schedule for preparing the transport sector strategy coincides with this effort, allowing the development of appropriate links with the national poverty reduction strategy. These links will enhance the impact of transport sector development on poverty reduction.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Impact and Output**

15. The goal of the TA is to improve transport sector performance so that it can make a sustainable contribution to economic development and poverty reduction in Azerbaijan. The purpose of the TA is to assess in detail all modes of transport, and identify strategic priorities and resources for sector development and operational needs for the medium term in line with the Government's objectives. The strategy will be the Government's key document guiding the policies and investments in the transport sector in 2006–2016. The TA will help develop the country strategy and program<sup>12</sup> for Azerbaijan, and will guide ADB assistance for lending and nonlending products and services in the transport sector.

#### **B. Methodology and Key Activities**

16. International consultants, supported by domestic consultants, will be engaged to help the Government prepare the transport strategy. The consultants will work closely with MOT staff, and provide on-the-job training to develop skills and ensure strategy review and revisions. The TA will involve analytical and innovative research, fieldwork, training, and stakeholder consultations with the Government, civil society, the private sector, user groups, and international development partners.

17. Key TA activities include (i) undertaking an analytical review of the status of the transport sector, and preparing a transport sector update; (ii) reviewing the development plans for civil aviation, railways, roads, maritime transport, ports and/or harbors, oil pipeline, and urban transport; (iii) identifying the long-term development needs, policy reforms, and regulatory requirements that are in line with the Government's envisaged development goals; (iv) advising the Government on establishing a logistics center for international transit traffic, (v) consulting with stakeholders through at least two workshops—the first in the initial implementation period, and the second to discuss the draft strategy; (vi) identifying MOT capacity-building needs, and undertaking and/or arranging selected training; and (vii) preparing the medium-term (2006–2016) transport sector development strategy, covering the roles of Government, private sector, and regulatory bodies.

#### **C. Cost and Financing**

18. The estimated cost of the TA is \$437,500 equivalent, including foreign exchange cost of \$225,000 and local currency cost of \$212,500. The detailed cost estimate is in Appendix 2. ADB will finance \$350,000 equivalent, including the foreign exchange cost of \$225,000 and local currency cost of \$125,000 equivalent. The TA will be financed on a grant basis from ADB's TA

---

<sup>11</sup> ADB plans to assist through a proposed TA for participatory strategy development and implementation for achieving the MDGs.

<sup>12</sup> Scheduled for 2006.

fund program. The Government will finance the remaining local currency cost of \$87,500 by providing office space, counterpart staff, and administrative support.

#### **D. Implementation Arrangements**

19. MOT will be the Executing Agency. A steering committee, chaired by the deputy minister of MOT, will be established to oversee implementation, provide guidance and direction, and facilitate coordination and cooperation among the subsectors and stakeholders. The committee will include representatives of agencies responsible for planning and developing roads, railways, civil aviation, maritime transport, ports and harbors, oil pipelines, and urban transport. Representatives of the Ministry of Finance, Ministry of Economic Development, State Customs Committee, Traffic Police, and other relevant agencies also will attend the steering committee meetings. MOT will establish task forces in each subsector agency to ensure that information relevant to the subsector is readily available to the consultants.

20. The TA will require 42.5 person-months of consulting services, comprising 9.5 person-months of international consulting and 33.0 person-months of domestic consulting input to carry out the terms of reference (Appendix 3). The team of consultants from an international consulting firm, in association with domestic consultants, will be engaged using ADB's quality and cost-based selection procedures, and according to the ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for selecting and engaging the domestic consultants. The international specialists will include (i) a transport planner, (ii) a railway specialist, (iii) a border control logistic specialist, and (iv) a financial and/or institutional specialist. The domestic input will include specialists for (i) roads, (ii) railways, (iii) civil aviation, (iv) maritime and/or ports, (v) financial, (vi) urban transport, (vii) logistics, (viii) engineer and/or planner, (ix) communications, and (x) economist. The TA is expected to start in July 2005, and will be completed by December 2005. The consultants will follow ADB's *Guidelines for Procurement* in procuring equipment, supplies, and materials. The equipment will be turned over to MOT after TA completion.

#### **IV. THE PRESIDENT'S DECISION**

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$350,000 on a grant basis to the Government of Azerbaijan for Transport Sector Development Strategy, and hereby reports this action to the Board.



## DESIGN AND MONITORING FRAMEWORK

| Design Summary  | Performance Targets and Indicators  | Monitoring Mechanisms  | Assumptions and Risks   |
|---|---|--|---|
| <b>Impact</b><br>Integrated development of the transport sector to improve efficiency and performance   | <p>Increase in freight and passenger traffic by 5% per year (average) during 2006–2016, from 22,615 million ton-kilometers and 12,600 million passenger-kilometers in 2003</p> <p>Increased the share of gross domestic product for transport sector funding for development and maintenance from 7% (2004) to 12%</p>  | <p>Government's economic and social statistics</p> <p>Government budgets</p>   | <p><b>Assumptions</b><br/> The Government's commitment to implement the transport strategy (2006–2016)</p> <p>Adequate resources are provided for implementation</p> <p><b>Risk</b><br/> Shift in budgetary priorities away from the transport sector strategy</p>  |
| <b>Outcome</b><br>Identification of strategic priorities, institutional and/or policy reforms, and resources for transport sector development during 2006–2016, in line with the Government's vision and aspirations  | <p>Strategic development priorities in the transport sector identified</p> <p>Recommendations for transport sector policy reforms developed</p> <p>Action plan for improving private sector participation in the transport sector development specified</p> <p>Resources identified for implementing the transport strategy, and public funding requirements reflected in the Government's medium-term fiscal framework</p> | <p>Technical assistance (TA) progress reports</p> <p>TA review mission reports</p> <p>Asian Development Bank (ADB) TA completion report</p> <p>Government's medium-term fiscal framework</p> | <p><b>Assumptions</b><br/> The Government's acceptance and adoption of the transport strategy</p> <p>Support from other external aid agencies for the transport strategy</p> <p><b>Risk</b><br/> Lack of support for regulatory mechanism from state-owned enterprises operating autonomously</p>   |
| <b>Outputs</b><br>1. Updated transport sector database<br>2. Identification and prioritization of long-term needs for transport infrastructure; and policy, institutional, and/or regulatory reforms<br>3. Identification of roles of Government, state-owned enterprises, regulatory bodies, and private sector<br>4. Sustainable measures to address sectoral and thematic issues<br>5. Framework and plans for development of international logistics center<br>6. Capacity building of the Ministry of Transport (MOT) and human resource development plan for the sector<br>7. Links developed between transport sector development and national | <p>Draft final report submitted to the Government and ADB by mid-Nov 2005</p> <p>Final report submitted to the Government and ADB by mid-Dec 2005</p>   | <p>TA progress reports</p> <p>TA review mission reports</p> <p>ADB TA completion report</p>  | <p><b>Assumptions</b><br/> Support from all stakeholders to the consultants</p> <p>Continued support from other external aid agencies during TA implementation</p> <p>Active participation of stakeholders in public consultations</p> <p><b>Risk</b><br/> Lack of coordination among relevant Government agencies during TA implementation</p> <p>The information and data needed for preparing the transport strategy is not readily accessible</p> |

| Design Summary  | Performance Targets and Indicators | Monitoring Mechanisms | Assumptions and Risks   |
|---|------------------------------------|-----------------------|---|
| poverty reduction strategy<br>8. Consultation with stakeholders and development partners<br>9. A Government-owned Transport Sector Development Strategy for Azerbaijan (2006–2016)  |                                    |                       |   |
| <b>Activities with Milestones</b><br>1. Review of the status of the transport sector (beginning at TA inception in July, for 3 months), covering: <ul style="list-style-type: none"> <li>(i) role of transport sector in economic and social development;</li> <li>(ii) existing transport network, infrastructure, and services;</li> <li>(iii) transport demand (including freight and passenger traffic, and domestic and transit traffic);</li> <li>(iv) modal shares;</li> <li>(v) transport policies, legislation, and regulations;</li> <li>(vi) transport financing and financial management capacity;</li> <li>(vii) opportunities for the private sector;</li> <li>(viii) institutional structure and human resource capacity;</li> <li>(ix) privatization of state-owned enterprises;</li> <li>(x) cross-border transport agreements;</li> <li>(xi) existing sectoral studies and reports; and</li> <li>(xii) Government's development plans in all subsectors.</li> </ul> 2. Identify long-term challenges in the transport sector, and assess Government's response (July–September).<br>3. Advise the Government on regulatory framework for private sector participation.<br>4. Review impact of sectoral and thematic issues and recommend sustainable measures (July–September).<br>5. Advise the Government on establishing the international logistic center (September–November).<br>6. Recommend measures to improve human resource capacity in the transport sector (September–November).<br>7. Identify links between transport sector strategy and national poverty reduction strategy.<br>8. Conduct two consultative workshops with stakeholders (one in September, one in November).<br>9. Prepare medium-term (2006–2016) transport sector development strategy (December) that : <ul style="list-style-type: none"> <li>(i) recommends best ways to respond to the sector challenges;</li> <li>(ii) sets the sector's strategic agenda and development priorities;</li> <li>(iii) recommends necessary reforms in transport policies, regulation, and organizational structures;</li> <li>(iv) recommends procedures on privatization of the state-owned enterprises and private sector participation;</li> <li>(v) develops criteria for selecting public investment projects in the transport sector; and</li> <li>(vi) proposes a time-bound action plan, and specifies the resources required for implementation.</li> </ul> |                                    |                       | <b>Inputs</b> <ul style="list-style-type: none"> <li>• ADB TA: \$350,000<br/>International consultants (9.5 person-months)<br/>Domestic consultants (33 person-months)</li> <li>• ADB headquarters and resident mission staff:<br/>TA inception (1 week)<br/>Workshops (1 week)<br/>Participation in other TA activities (2 weeks)</li> <li>• Government: \$87,500 (in kind)</li> </ul> |

**COST ESTIMATES AND FINANCING PLAN**  
(\$ '000)

| Item  | Foreign<br>Exchange | Local<br>Currency | Total<br>Cost |
|---|---------------------|-------------------|---------------|
| <b>A. Asian Development Bank Financing<sup>a</sup></b>            |                     |                   |               |
| 1. Consultants  |                     |                   |               |
| a. Remuneration and Per Diem                                      |                     |                   |               |
| i. International Consultants                                      | 170.0               | 0.0               | 170.0         |
| ii. Domestic Consultants  | 0.0                 | 50.0              | 50.0          |
| b. International and Local Travel                                 | 15.0                | 5.0               | 20.0          |
| c. Reports and Communications                                     | 3.0                 | 2.0               | 5.0           |
| 2. Equipment <sup>b</sup>   | 0.0                 | 28.0              | 28.0          |
| 3. Workshops  | 0.0                 | 5.0               | 5.0           |
| 4. International Transit Traffic Logistics<br>Center <sup>c</sup> | 20.0                | 16.0              | 36.0          |
| 5. Training   | 6.0                 | 3.0               | 9.0           |
| 6. Miscellaneous Administration and<br>Support Costs <sup>d</sup> | 0.0                 | 12.0              | 12.0          |
| 7. Representative for Contract Negotiations                       | 5.0                 | 0.0               | 5.0           |
| 8. Contingencies  | 6.0                 | 4.0               | 10.0          |
| <b>Subtotal (A)</b>   | <b>225.0</b>        | <b>125.0</b>      | <b>350.0</b>  |
| <b>B. Government Financing</b>                                    |                     |                   |               |
| 1. Office   | 0.0                 | 30.0              | 30.0          |
| 2. Remuneration and Per Diem<br>of Counterpart Staff              | 0.0                 | 48.0              | 48.0          |
| 3. Administrative Support and Others                              | 0.0                 | 9.5               | 9.5           |
| <b>Subtotal (B)</b>   | <b>0.0</b>          | <b>87.5</b>       | <b>87.5</b>   |
| <b>Total</b>  | <b>225.0</b>        | <b>212.5</b>      | <b>437.5</b>  |

<sup>a</sup> Financed by the Asian Development Bank's technical assistance funding program.

<sup>b</sup> Including a photocopier, fax machine, printers, plotter, and computers.

<sup>c</sup> Includes international consultant (1 person-month), and domestic consultants (8 person-months).

<sup>d</sup> Including translation costs.

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Introduction

1. Under the technical assistance (TA), 42.5 person-months of consulting services (9.5 international and 33.0 domestic) will be provided through a consulting firm to help the Government of Azerbaijan formulate a transport sector development strategy for 2006–2016. The consultants will be recruited according to the Asian Development Bank (ADB)'s *Guidelines on the Use of Consultants*, and other arrangements satisfactory to ADB for selecting and engaging domestic consultants.

2. The international and domestic consultants will work closely with the Ministry of Transport (MOT), the Executing Agency for the TA, during the assignment. The international transport planner will be the team leader, and will be responsible for coordinating the work of the other consultants. An outline of the terms of reference for the consultants is given below.

### B. Terms of Reference

3. The consultants' tasks will include, but will not be limited to:

- (i) Preparing a comprehensive and analytical review of the status of the transport sector<sup>1</sup> in Azerbaijan. The review will cover (a) the role of the transport sector in economic and social development of Azerbaijan and in the region; (b) transport networks, infrastructure, and services; (c) transport demand (including freight and passenger traffic, and domestic and regional transit traffic); (d) modal shares; (e) transport policies, legislation, and regulations; (f) transport financing and financial management capacity; (g) opportunities for private sector; (h) institutional structure and human resource capacity in the transport sector; (i) privatization of state-owned enterprises (SOE), (j) the cross-border transport agreements; (k) sectoral reports and studies; and (l) Government's existing (or draft) plans for development of railways, roads, civil aviation, maritime transport, ports and/or harbors, pipelines, and urban transport. Based on the review, the consultants will prepare a transport sector update;
- (ii) Identifying the long-term challenges for the transport sector, taking into account the global and regional context, Azerbaijan's geographic and demographic features, the Government's recently prepared State Transport Sector Development Program 2005–2014, and other development initiatives. The consultants also will assess the Government's response to the sector challenges;
- (iii) Reviewing the Government's initiatives and preparing recommendations for (a) privatizing SOEs, (b) separating regulatory functions from commercial operations, (c) developing regulatory frameworks for private sector participation in the transport sector, and (d) providing an enabling environment for private sector financing of infrastructure projects;

---

<sup>1</sup> The transport sector covers roads, railways, civil aviation, maritime, ports and/or harbors, pipelines, and urban transport.

- (iv) Reviewing the impact of sectoral and thematic issues affecting the transport sector. These include, among others, operations and maintenance, design standards, overloading, safety and security, governance, environment, social aspects, and health. The consultants will identify the ongoing activities in these areas and prepare recommendations for addressing these issues in the long term;
- (v) Advising the Government on establishing an international logistics center to monitor and facilitate international and transit traffic, promote international trade, and improve movement of vehicles and goods in accordance with international practices;
- (vi) Recommending appropriate measures to improve human resource capacity in the transport sector. The consultants will identify MOT's capacity building needs, and undertake and/or arrange selected training as appropriate. They also will assist in developing MOT's capacity for preparing transport sector development plans. The recommendations will include the development of the domestic consulting and contracting industry to meet future development needs of the sector;
- (vii) Preparing recommendations for transport financing and financial management capacity analysis of MOT, including (a) assessing financial requirements for capital expenditure, and operations and maintenance; (b) indicating the structure and financing models for projects with public-private partnerships; (c) recommending alternatives for setting up financially viable and sustainable subcomponents; (d) conducting a preliminary affordability analysis; (e) assessing the financial management of potential executing and/or implementing agencies; and (f) recommending ways to improve financial management and governance;
- (viii) Assisting in the development of the Government's 10-year national poverty reduction strategy by establishing links to enhance the impact of transport sector development on poverty reduction;
- (ix) Conducting consultations on the formulation of the transport strategy. The consultants will organize at least two consultative workshops to be attended by Government officials, transport operators, consumers, nongovernment organizations, private sector, and international development partners. The first workshop will be held in the initial period of services to seek stakeholder views and suggestions, and the second to discuss the draft transport strategy prepared by the consultants;
- (x) Preparing a medium-term (2006–2016) transport sector development strategy for Azerbaijan based on the sector review and stakeholder consultations. The transport strategy should (a) identify the best ways to respond to future sector challenges; (b) set the sector's strategic agenda and development priorities; (c) recommend necessary reforms in transport policies, regulations, and organizational structures; (d) recommend procedures for privatization of SOEs and private sector participation; (e) develop the criteria for selecting public investment projects in the sector; (f) propose a time-bound program of action; and (g) specify the resources required for implementing the strategy. The consultants will present the draft transport strategy at the second workshop.

Based on the comments received from workshop participants and the tripartite meeting, the consultants will finalize the transport sector development strategy for Azerbaijan (2006–2016).

### **C. Composition of Consultants**

4. The consultant team comprises four international consultants and 10 domestic consultants. The international consultants will consist of transport planner (5 person-months), railway specialist (1.5 person-months), border control logistic specialist (1 person-month), and financial management and/or institutional specialist (2 person-months). The international transport planner also will serve as the team leader responsible for coordinating with other consultants and preparing the transport sector development strategy. The 10 domestic consultants will comprise road specialist (5 person-months), railway specialist (4 person-months), civil aviation specialist (4 person-months), ports and/or maritime specialist (4 person-months), financial specialist (4 person-months), urban transport specialist (4 person-months), logistics specialist (2 person-months), communications specialist (2 person-months), engineer and/or planner (2 person-months), and economist (2 person-months). Under the supervision of the international consultants, the domestic consultants will assist in (i) collecting data and reviewing published documents and reports; (ii) analyzing information and data obtained in their respective areas; (iii) conducting consultations, including stakeholder workshops; (iv) providing inputs for the transport strategy; and (v) performing other tasks as needed.

### **D. Reporting Requirements**

5. The consultants will be required to submit to the Government and ADB (i) an inception report within 4 weeks after commencement of services; (ii) the draft transport strategy (2006–2016), including appendixes, within 18 weeks after commencement of services; and (iii) the final draft transport sector development strategy (2006–2016) within 2 weeks after receipt of comments on the draft document. The consultants also will be required to submit brief project progress reports to the Government and ADB each month during the services.

6. All reports and the transport strategy will be delivered in a format and substance satisfactory to the Government and ADB. Six copies (three each in English and Azeri) are to be provided to MOT and three copies (in English) to ADB. The main text of the strategy (2006–2016) should not exceed 70 pages (A4 size, single-spaced). An electronic copy of the final draft transport strategy (in Word, Excel format, and in compact disc) and the executive summary (in PowerPoint) will be submitted to MOT (in English and Azeri) and ADB (in English) at the end of services.