



Azerbaijan

Country Progress Report on the Implementation Action Plan for the Transport and Trade Facilitation Strategy

Prepared by

Mr. Ashraf Kuliyeu, Advisor to the National Focal Point

Mr. Faraj Huseynbeyov, Project Implementation Officer, AZRM, Asian Development Bank

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I. Transport and Trade Facilitation

1. The Asian Development Bank (ADB's) technical assistance (TA) will support the establishment of a national joint transport and trade facilitation committee (NJC) that will oversee performance measurement and monitoring activities of the implementation of the Action Plan for the Transport and Trade Facilitation Strategy (Action Plan) endorsed by the Seventh Ministerial Conference on CAREC in November 2008.

II. Status of Investment and Technical Assistance Projects

2. Below are specific updates on the status of investment and technical assistance projects in the Republic of Azerbaijan (Azerbaijan).

A. Transport

3. **Roads and Road Transport.** The whole Central Asia Regional Economic Cooperation (CAREC) Corridor 2 road segment has been fully funded by the Government of Azerbaijan (the Government) and external sources. The Project is proceeding well. Road maintenance specialists were mobilized in January 2008 to improve road maintenance.

Investment Project (IP)	Status
AZE IP 1: East-West Highway Improvement (ongoing)	<ul style="list-style-type: none">▪ Project implementation is proceeding well.▪ ADB, EBRD, IsDB, Saudi Fund, and the Government have made prior commitments for Gazi Mamed-Kyurdamir, Gazi Mamed-Kyurdamir, and Ganja bypass.▪ In 2009, ADB plans to approve \$200 million for tranche 3 of the multitranche financing facility (MFF) for the Road Network Development Program to improve Ganja-Qazakh.▪ The Government has requested the World Bank to help finance the upgrading of 120 km of M4 road between Baku and Shamakhy in the amount of \$120 million. Financing is planned for 2010.¹

Technical Assistance Project (TA)	Status
AZE TA 1: Road Maintenance (new to ongoing)	<ul style="list-style-type: none">▪ A consulting firm was mobilized in January 2008.▪ The budget for the consultancy and the purchase of road maintenance equipment is \$3 million.▪ The assistance will continue until 2010.

4. **Railways and Railway Transport.** CAREC 2 railway corridor improvement has started with World Bank financing. The project aims to provide reliable and fast freight, and passenger transportation services by rehabilitating the main East-West railway line.

¹ The World Bank approved \$300 million for Alyat-Masalli and Tagiyev-Sahil in 2008, but both roads are feeder to CAREC Corridor 2.

Investment Project (IP)	Status
AZE IP 2: Railway Trade and Transport Facilitation (new to ongoing)	<ul style="list-style-type: none"> ▪ Project is proceeding well. ▪ World Bank approved its financing (\$450 million) in 2008. ▪ ADB's financing will depend on the outcomes of ADB's TA.

Technical Assistance Project (TA)	Status
AZE TA3: Preparation of Railway Sector Development Program (ongoing)	<ul style="list-style-type: none"> ▪ ADB approved TA (\$1 million). ▪ Consultants will be mobilized during the second quarter of 2009.

5. **Ports and Shipping.** The Government has completed the technical assistance project to prepare a feasibility study for a new port facility. A new comprehensive international sea trade complex started in 2009. The Government plans to acquire new ferries in meeting transit trade demands between Europe and Central Asia along CAREC Corridor 2 effectively.

Investment Project	Status
AZE IP 3: Acquisition of High-Capacity Ferries and Ro/Ros by Caspian Sea Shipping	<ul style="list-style-type: none"> ▪ Programmed for 2010–2015.
AZE IP 4: Construction of Baku International Sea Trade Port Complex (new) (ongoing) (formerly AZE TA 2: Feasibility Study for New Alyat Port)	<ul style="list-style-type: none"> ▪ Tender process for the selection of a detailed designing company was completed. ▪ The project started in 2009 and will be completed in 2013. ▪ Government and the private sector will finance the project.

Technical Assistance Project	Status
AZE TA 2: Feasibility Study for New Alyat Port	<ul style="list-style-type: none"> ▪ Completed.

B. Corridor Performance Measurement and Monitoring Activities

6. ADB, acting as the secretariat, and the partner forwarder/carrier and logistics association(s) in each CAREC country signed a memorandum of understanding (MOU) at the Corridor Performance Measurement and Monitoring (CPMM) meeting held in Guangzhou, PRC on 23–24 February 2009. The MOU defines the roles and responsibilities of both parties and covers 1 year of CPMM activities, renewable for another year. Data collection by partner forwarder/carrier and logistics associations started in March 2009.

III. Follow-up Actions

7. The following actions are suggested to ensure the effective implementation of the Action Plan:

- (i) Work with ADB for the establishment of the NJC and conduct of CPMM;

- (ii) Implement AZE IP 1: East-West Highway Improvement, Phase I of AZE IP 2: Railway Trade and Transport Facilitation and secure additional financing as necessary; and
- (iii) Identify financing sources for AZE IP 3: Acquisition of High-Capacity Ferries and Ro/Ros by Caspian Sea Shipping.

Appendixes

- 1 - List of Projects in Azerbaijan
- 2 - Updated Project Profiles

List of Projects in Azerbaijan

Investment Project

- 1 AZE IP 1: East-West Highway Improvement (ongoing)
- 2 AZE IP 2: Railway Trade and Transport Facilitation (new to ongoing)
- 3 AZE IP 3: Acquisition of High Capacity Ferries and Ro/Ros by Caspian Sea Shipping
- 4 AZE IP 4: Construction of Baku International Sea Trade Port Complex (new) (formerly AZE TA 2: Feasibility Study for New Alyat Port)

Technical Assistance Project

- 1 AZE TA 1: Road Maintenance (new to ongoing)
- 2 AZE TA 2: Feasibility Study for New Alyat Port (completed)
- 3 AZE TA3: Preparation of Railway Sector Development Program (new to ongoing)

AZE IP1: East–West Highway Improvement
Country: Azerbaijan
CAREC Corridor 2

1. Project Name: East-West Highway Improvement
2. Type of Project: Road rehabilitation and road widening
3. Project Location: Republic of Azerbaijan (Azerbaijan)
4. Sector/Subsector: Transport/Roads
5. Background and Rationale: The Project will improve trade and traffic with Georgia along the main road transport corridor (about 534 km) in Azerbaijan (CAREC Corridor 2).
6. Objectives: To enhance trade and economic opportunities through improving the main road transport corridor.
7. Scope: Improvement of priority road segments of the East-West Corridor (about 534 km)
8. Estimated Cost: An estimate of \$1.25 billion.
9. Financing Plan and Arrangements: The Government has so far mobilized a total of \$528.1 million. <ul style="list-style-type: none"> ▪ Gazi Mamed-Kyurdamir: EBRD approved in 2004 a \$41 million loan to reconstruct 85 km section of this road segment. ▪ Yevlakh-Ganja: A total of \$93.2 million was approved in 2005 for the East-West Highway Improvement Project: ADB (\$52 million), IsDB (\$10.4 million), Saudi Fund (\$11 million), and Government (\$19.8 million). ▪ Ganja bypass: ADB approved in 2008 \$73.9 million for tranche 2 of the multitranchise financing facility (MFF) for the Road Network Development Program: ADB (\$55.4 million) and Government (\$18.5 million).² ▪ Ganja-Qazakh: ADB plans to approve in 2009 \$200 million for tranche 3 of the same MFF. ▪ M4 road between Baku and Shamakhy: The Government has requested the World Bank to help finance the upgrading of 120 km of M4 road in the amount of \$120 million. Financing is planned for 2010.³
10. Implementation Schedule: Ongoing to 2015.
11. Executing Agencies: AZERROADSERVICE OJC, MOT
12. Estimated Benefits and Beneficiaries: Project will improve competitiveness of the road corridor for import/export and transit of goods.
13. Social and Environmental Issues: No major environmental and resettlement issues.
14. Priority of Project: High.
15. Project Status: Construction of the Gazakh-Georgia border line is ongoing. Contract with the subcontractor for the Ganja ring road has been signed. Measures are being taken to enforce the Loan Agreement.
16. Follow up Actions Required: For the Loan Agreement for the Ganja road to enter into force.
17. Issues/Constraints: None.
18 PPP/PSP Opportunities: Private sector maintenance opportunities. The road could be a candidate for tolls.

² ADB approved tranche 1 for Masalli-Astara in the amount of \$200 million in 2007, but this road segment is a feeder to CAREC Corridor 2.

³ The World Bank approved \$300 million for Alyat-Masalli and Tagiyev-Sahil in 2008, but both roads are feeder to CAREC Corridor 2.

AZE IP2: Railway Trade and Transport Facilitation
Country: Azerbaijan
CAREC Corridor 2

1. Project Name: Railway Trade and Transport Facilitation Project
2. Type of Project: Rehabilitation of East-West Main Railway Line
3. Project Location: Baku–Boyuk Kasik Station
4. Sector/Subsector: Transport/Railways
5. Background and Rationale: The existing railway network was constructed before the Second World War. About 30% of the network needs rehabilitation. The average speed of the freight trains is 35 km p/h. Current length of the railway network is 2,122 km.
6. Objectives: The objectives are the followings: improvement of railway services in Azerbaijan Republic and strengthening competitiveness, financial sustainability, economic efficiency and capacity building of Azerbaijan State Railways (ADDY) (especially along the East-West corridor). To improve railway services in Azerbaijan, in particular along the transport corridor toward Georgia. The first component consists of the rehabilitation of east-west main line (about 240 km). The second component consists of the new mainline locomotives component. The third component consists of the modernization component. Finally, the fourth component consists of total cost without contingencies.
7. Scope: To ensure conversion of Baku-Boyuk Kasik station's operation to system of 27.5 KVT of alternate current; reconstruction of a 550 km highway section with a view to increase the speed and ensure safety traffic; 50 new electric locomotives of alternate current, 1,500 new wagons for the transportation of oil and oil products and 50 new passenger carriages.
8. Estimated Cost: The overall cost is estimated at \$1. 75 billion with Phase 1 set at \$795 million.
9. Financing Plan and Arrangements: Financing comes from the World Bank (\$450 million) and Government (\$345 million). ADB's participation will depend on the outcomes of the ongoing AZE TA3: Preparation of Railway Sector Development Program. The TA, approved by ADB in 2008, will prepare the MFF and components of project 1, which ADB hopes to submit to its Board in 2009.
10. Proposed Implementation Schedule: Ongoing – 2013
11. Executing Agencies: Ministry of Transport, Azerbaijan State Railways (ADDY)
12. Estimated Benefits and Beneficiaries: Reducing the risks of accidents and environmental risks by improving conditions of roads in main trunk line, prevention of oil spill in ADDY, and increasing the response potential. The project will support development of services and will enable the railroad to attract higher volumes of transit transactions, which are increasing day by day. Significant reduction in operating costs and large economic benefits to railway users in terms of time savings. Also by reducing traveling time and costs, the corridor will gain in competitiveness.
13. Social and Environmental Issues: No negative social and environment impacts are foreseen.
14. Priority of Project: High
15. Project Status:
16. Follow up Actions Required:
17. Issues/Constraints:

**AZE IP 3: Acquisition of High-Capacity Ferries and
Ro/Ros by Caspian Sea Shipping
Country: Azerbaijan
CAREC Corridor 2**

1. Project Name: Acquisition of High-Capacity Ferries and Ro/Ros by Caspian Sea Shipping
2. Type of Project: Maritime
3. Project Location: Baku, Azerbaijan
4. Sector/Subsector: Transport/Ports
5. Background and Rationale: Current ferries carry only 28 wagons and require breaking a train for haul by two ferries. The Caspian Shipping Company has recently acquired a Ro/Ro for vehicle traffic, but this will be insufficient for increasing traffic demands. Furthermore, it is projected in the foreseeable future that a significant volume of oil and gas products will continue to be carried by rail wagons on the Caspian Sea. Considering these, the Caspian Shipping Company intends to acquire five new ferries of 56 wagon-capacities in order to improve its operational efficiency.
6. Objectives: To capture more adequately the transit trade between Europe and Central Asia along CAREC 2.
7. Scope: Procurement of 5 new ferries, each of 56 wagon-capacity and 2 additional Ro/Ros.
8. Estimated Cost: Total cost is estimated at \$ 69 million, comprising ferries (\$ 9 million/each) and Ro/Ros vessels (\$ 12 million/each).
9. Financing Plan and Arrangements: Caspian Shipping Company will finance most of the Project. External financing is also possible.
10. Implementation Schedule: Suggested schedule is 2010–2013.
11. Executing Agencies: Caspian Shipping Company.
12. Estimated Benefits and Beneficiaries: Project will help reduce congestion. It will also contribute to a reduction of the transportation time of goods (in particular oil and gas products) between Baku and Aktau (Kazakhstan) and between Baku and Turkmenbashi (Turkmenistan). The Project will thus contribute to the competitiveness of CAREC Corridor 2.
13. Social and Environmental Issues: No major social and environmental issues.
14. Priority of Project: Medium priority
15. Project Status: RETA: Needs Assessment of Caspian Shipping Along CAREC Corridors is expected to give useful information to the Project.
16. Follow up Actions Required: Financial feasibility study required.
17. Issues/Constraints: The acquisition of the 5 new ferries and 2 Ro/Ros will allow Caspian Shipping Company to respond to increasing demand and increase its market share of the Caspian trade.
18. PPP/PSP Opportunities: Caspian Shipping Company is presently a state company. Its privatization has been envisaged and could materialize in the near future.

AZE IP 4: Construction of Baku International Sea Trade Port Complex
(formerly AZE TA2: Feasibility Study for New Alyat Port)
Country: Azerbaijan

CAREC Corridor 2

1. Project Name: Construction of A New Baku International Sea Trade Port Complex
2. Type of Project: New construction
3. Project Location: Azerbaijan, Baku, Alyat settlement
4. Sector/Subsector: Transport/Ports
5. Background and Rationale: In view of expected increase traffic volumes as a result of the implementation of new Baku-Tbilisi-Gars railway project connecting Azerbaijan and Turkey through Georgia, the Baku port needs to increase its capacity to meet increasing freight and passenger transport demands along CAREC 2 Corridor.
6. Objectives: The Project will remove transport bottleneck at the Baku port.
7. Scope: The Project will construct a new Sea Trade Port in the intersection of East-West and North-South transport corridors.
8. Estimated Cost: About \$50 million (preliminary estimate). Information will be defined upon completion of the project documents.
9. Financing Plan and Arrangements: State budget and other sources as defined by the Government of Azerbaijan.
10. Implementation Schedule: Ongoing to 2013. Project preparation is scheduled for 2009–2010, while contraction is planned for 2010–2013.
11. Executing Agencies: Ministry of Transport of the Republic of Azerbaijan
12. Estimated Benefits and Beneficiaries:
13. Social and Environmental Issues:
14. Priority of Project: This project is one of the priority areas defined by Azerbaijan Government.
15. Project Status: Tender process on the selection of a detailed designing company was completed.
16. Follow up Actions Required: Following completion of project preparation works, a contractor will be selected.
17. Issues/Constraints: Registration of land plots allocated for construction of new Baku International Sea Trade Port Complex.
18. PPP/PSP Opportunities: Private sector involvement in the process of establishment of logistic transport terminals.

AZE TA1: Road Maintenance–Institutional Development, Capacity Building, and Financing
Country: Azerbaijan
CAREC Corridor 2

1. Project Name: Road Maintenance Project
2. Type of Project: Institutional development, capacity building and Financing.
3. Project Location: Azerbaijan
4. Sector/Subsector: Transport/Roads
5. Background and Rationale: Most of the road network suffers from insufficient and inadequate road maintenance. Azerbaijan needs to upgrade its road maintenance program with respect to technology and management, developing sustainable funding sources and improving the skill of staff through training.
6. Objectives: The main objective is to assist the Government in preparing an improved and sustainable road maintenance system that will enable private sector participation.
7. Scope: TA will support institutional changes and capacity building of staff responsible for road maintenance work in order to implement and manage a cost-effective road maintenance system.
8. Estimated Cost: An estimate of \$3 million.
9. Financing Plan and Arrangements: ADB financing
10. Implementation Schedule: Ongoing to 2010
11. Executing Agencies: "Azerroadservice" OJSC
12. Estimated Benefits and Beneficiaries: The main benefits of the ensuing Project will be improved regional trade and economic opportunities through efficient and cost-effective road maintenance.
13. Social and Environmental Issues:
14. Priority of Project: High
<p>15. Project Status:</p> <p>The East-West Highway Improvement Project (financed by ADB) has a component for institutional strengthening for the road subsector, comprising 4 sub-components, two of which are relevant to road maintenance.</p> <p>These are: (i) road maintenance taking care of (a) reorganization of regional maintenance units, (b) support for operation of the regional maintenance units located in the project area through capacity building and provision of equipment, (c) implementation of the new pavement management system, (d) prioritization of roads for maintenance, and (e) identification of alternative sources of maintenance funding, and (ii) axle-load control taking care of (a) assessment of axle overloading, (b) establishment of vehicle weigh stations along the main roads, (c) support for operation of the vehicle weigh stations located in the project area through capacity building and provision of equipment, and (d) strengthening of ARS monitoring.</p> <p>The total budget for the consultancy and purchase of equipment is \$3 million. The consultant was mobilized in January 2008 (contract amount \$1.2 million). The consultant will develop the equipment purchase plan for road maintenance and axle-load control (\$1.8 million).</p>
16. Follow up Actions Required:
17. Issues/Constraints:
18. PPP/PSP Opportunities: Maintenance operations

AZE TA3: Preparation of Railway Sector Development Program

Country: Azerbaijan

CAREC Corridor 2

1. Project Name: Preparation of Railway Sector Development Program
2. Type of Project: Technical Assistance
3. Project Location: Republic of Azerbaijan (Azerbaijan)
4. Sector/Subsector: Transport/Railways
5. Background and Rationale: Railways in Azerbaijan need upgrading to improve transport services in support of the country's economic and social development as well as increased regional trade.
6. Objectives: The objective is to support the strengthening of railway transport services in Azerbaijan. The TA will assist the Government in the preparation of investment projects aimed at upgrading rails and trains of Azerbaijan State Railways under a phased implementation within 5–10 years.
7. Scope: The TA will produce (i) a proposed MFF including policy framework, safeguards framework, investment plan, and financing plan and related information such as the sector road map and strategy context; and (ii) feasibility study and related due diligence for technical, commercial, financial, social, safeguards, institutional effectiveness, governance, financial management system, and project management aspects and preliminary/detailed design for the components of tranche 1 project. A railway sector roadmap will be prepared within the framework of the TA, which will guide the phased implementation of the MFF. Criteria for the selection of subprojects for the MFF tranches will also be prepared.
8. Estimated Cost: An estimate of \$1.25 million.
9. Financing Plan and Arrangements: Financing comes from ADB (\$1 million) and the Government (\$250,000).
10. Implementation Schedule: Ongoing-2009
11. Executing Agencies: Ministry of Transport, Azerbaijan State Railways (ADDY)
12. Estimated Benefits and Beneficiaries: The main benefits of the ensuing investment projects will be improved rail transport services.
13. Social and Environmental Issues: Poverty and Social Impact Assessment Report, Resettlement Plan, Land Plan, Environmental Impact Assessment Report, Environment Management Plan and if necessary local population development plan will be prepared.
14. Priority of Project: High
15. Project Status: Consultants will be mobilized during the second quarter of 2009.
16. Follow up Actions Required: ADB Board approval of the ensuing MFF within 2009.
17. Issues/Constraints: The Presidential decree approving the State Program on ADDY development has not been signed yet.