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## Evaluation of the project of reconstruction of roads in Azerbaijan financed by EBRD loan



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## **Introduction**

The role of financial sector in the management and distribution of the funds is important. In the current context of globalization, financial institutions play key role in the formation of capital flows, creation of the financial markets and influence on international policies by means which are frequently inexplicable for citizens and are fatal for an environment, human rights, and social justice.

The international Financial Institutions (IFI) in present days allocate for Azerbaijan multi-million loans for various projects, unrelated anyhow to the lives of the local population.

Thus low awareness of the population about these projects, untrusting the public in decision-making process at the initial stage of the project implementation are the reasons of undesirable influence on the lives of local population, and is the reason of their discontent.

About 40 % of the population lives below the line of poverty, despite the huge oil revenues of Azerbaijan. The main reasons of poverty are unfair distribution of oil income, the, weak development of non-oil sector of economy and high level of corruption.

Loans received from the international financial institutions are debt which lays on each citizen of the country, and all society is responsible for their repayment. Inefficient use of these loans will be a heavy burden on shoulders of the present and future generations. For this reason the public control over the use of loans will help an effective utilization of this money.

## 1. Background

### 1.1 Brief description and status of the project

<b>Country:</b>	Azerbaijan
<b>Project number:</b>	43094
<b>Business sector:</b>	Transport
<b>Public/Private:</b>	Public
<b>Environmental category:</b>	B
<b>Board date:</b>	6 Dec 2011
<b>Status:</b>	Signed
<b>PSD disclosed:</b>	21 Sept 2011

The EBRD Bank approved a loan to Azerbaijan for a total of \$ 750 million in three tranches of \$ 250 million each in 6<sup>th</sup> of December 2011. The Government of Azerbaijan and the EBRD signed an agreement for the first tranche of \$ 250 million of the loan in December 2011. The funds would be used for the reconstruction of the highway Mingechavir-Bahramtepe of 156 km.

### 1.2 EBRD politics

The European Bank for Reconstruction and Development was (EBRD) established in 1991 in London to help the countries of Central and Eastern Europe and Central Asia to move towards a market-oriented economy. At present, the Bank has 63 members (61 countries, the European Community and the European Investment Bank). Azerbaijan is a member of the Bank since 1992. During the period of cooperation the Bank has provided loans totaling \$ 2.1 billion for the implementation of 117 projects. Bank is guided by the following policies in implementation of its projects.

## **Environmental and Social Policy**

The policy defines the priority social issues: 1) Working conditions standards, including health and safety at work; 2) Implications for the local population in areas such as health and safety, gender equality, implications for indigenous peoples and cultural heritage, the displacement (relocation) and the availability of basic services.

The requirements for the implementation of projects (RI):

RI1: Preliminary environmental and social assessment and management;

RI2: Labor relations and working conditions;

RI3: The prevention and reduction of environmental pollution ;

RI4: Health, safety and security of the local population;

RI5: Land Acquisition, Involuntary Resettlement and Economic Displacement;

RI6: The conservation of biological diversity and the sustainable management of natural resources;

RI7: Indigenous people;

RI8: Cultural heritage;

RI9: Financial intermediaries;

RI10: Disclosing information with interested parties;

## **Public Information Policy.**

Public Information EBRD is looking to increase the transparency and accountability of project activities. FEC disclosure principles contain Bank project information, as well as categorization of the information to be disclosed.

## 2. The main problems with the implementation of the road project

In the course of this study the website of EBRD was monitored and the letter was sent to the customer company AzərYolServis, to inquire on this project of EBRD. Project documents were reviewed to check their compliance with the Bank's policies and procedures. Additionally visits have been carried out to the regions affected by the road project implementation and meetings were held with the local population. As per the results of internet website monitoring as well as the outcome of meetings with the local community and responses provided by EBRD representatives, we came to the following conclusions.

### 2.1 Public awareness principals

There is not full project information on the websites of EBRD and the customer Azeryolservis. There are no documents about the current status of the project.

In the course of travel to areas of the project 47 residents were interviewed. None of them were aware of the dates and details of the project of reconstruction of the road. A public hearing on specific areas of reconstruction of the road Mingechavir-Bahramtepe was conducted. So the problems of the local population would begin at the time of the project implementation.



## **2.2 Environmental and Social Policy.**

The highway as an engineering concept would damage the natural landscape and alter the flow of surface waters and groundwater. The average speed of the prevailing winds in the river valley on the way to artificial constructions would be altered which would lead to the change in microclimate and associated changes in the flora and fauna. Therefore, the measures to mitigate the possible environmental and social risks should be carefully considered and implemented during the implementation of road projects.

The first tranche of 250 million dollars of the total EBRD loan of 750 million dollars was allocated for reconstruction of Mingachevir - Bahramtepe, but currently on the Bank's web site there is no information as which sections of roads other tranches will be allocated to. This project is classified as "B". Responding to questions about the project category, the EBRD representatives stated that all reconstruction projects fall under category "B", even though in previous road projects EBRD reconstruction projects were classified as the category "A".

To our request to provide the document on the environmental and social assessment of the road, the representatives of the local office of the EBRD made a reference to the document Environmental Assessment of Hajigabul-Horadiz road. Although these roads have certain common sections, they are located in different areas. This document contains information about public hearings on the project of Hajigabul-Horadiz road. Public hearings were held in Alibayramli April 11, 2011) (circled in blue on the map). This hearing is not consistent with the other four road projects, which are located in different regions characterized by different climatic, geographical features, etc. City Alibayramli (Shirvan) is located more than 300 km. from the place of the project for the reconstruction of the Mingachevir – Bahramtepe road. These 5 projects cover almost the entire territory of Azerbaijan. One project covers the North- eastern slopes of the Greater Caucasus, one on the south- eastern slopes of the Greater Caucasus, one in Gobustan , Absheron region and two in the Kur -Araz lowland. All these regions differ from each other by the type of vegetation, animal biodiversity, climate and hydrological regimes, and so on. Based on the above it can be concluded that public hearing regarding the multi tranche loan schemes are held for only one road project.

Monitoring of this particular project has shown that one of the most serious deficiencies in the Environmental Policy of EBRD in terms of transparency is the lack of public access to information about projects in the early stages of review by the Bank. This often leads to an incorrect choice of the project category (the Bank divides projects into categories "A", "B" and "C" according to their impact on the environment) and to an inadequate process of environmental assessment. Thus, there are conditions under which many environmentally hazardous projects can be completely withdrawn from public scrutiny, and the vast majority of projects are being known to the public much later than it should be.

Specifically for this project, the qualification for the category "B" is explained by the fact that the project involves the reconstruction. But this road was built 30-40 years ago. Since then, there have been significant changes in the area of construction, as well as in the whole of Azerbaijan. Specifically the land reform was conducted, new villages and towns emerged in the zone of the road, and the demographic situation has changed. The livestock of sheep and cattle has increased as a result of rapid development in the agricultural sector.

According to the Ministry of Ecology and Natural Resources, in the last decade the average temperature in the country increased by 0.8 ° degrees. Also recently a new version of the "Red Book" of Azerbaijan was published. All these changes had to be taken into consideration in the environmental and social impact assessment of the project. But unfortunately this was not taken into account which in the future may lead to a negative environmental and social impact of the project.

As mentioned above, the document of environmental and social impact assessment has been prepared only for one of the five road projects.

As can be seen from the document of preliminary environmental assessment of this road project, the analysis was based on outdated data. No field studies have been conducted. The Aggol National Park is situated not far from the road transport corridor Mingechavir-Bahramtepe. The territory of Aggol National Park is subject to Ramsar Convention (The Convention on Wetlands of International Importance, especially as Waterfowl Habitat). Although it is stated that the project will have no impact on the National Park, we believe that during implementation of the road reconstruction project there will be an increase in recreational pressure on this protected area. This problem requires a careful study by experts and creation of a plan to minimize the negative impact. Equally, we did not find any information on the buffer zone in this paper. As is known,

recommendations for the use of territories and the definition of the boundaries of the sanitary protection zone (SPZ) are determined by a combination of two types of determinants of exposure:

Also available to the public documentation, we found no evidence for the sanitary protection zone. As is known, recommendations for the use of territories and the definition of the boundaries of the sanitary protection zone (SPZ) are determined by a combination of two types of determinants of exposure:

- air pollution by nitrogen dioxide, and more precisely on the summation group (NO<sub>2</sub> + SO<sub>2</sub>);
- Noise levels standards for residential development zones.

Inside the sanitary protection zone of the interchange the residential buildings, schools and pre-schools, health-care and public health institutions, and sports facilities cannot be accommodated. Permission is granted to the agricultural use of land, but no closer than 18 m from the edge of the roadway interchanges and 16 m from the edge of the track due to possible contamination of soil lead compounds. All this is not reflected in publicly available documents.

### **2.3 Road standards.**

One of the main problems in the implementation of road projects in Azerbaijan is the lack of technical requirements and quality standards that must be applied to the roads of specific categories, which were once on the list of state standards existing in Soviet times. These technical requirements and quality standards should clearly specify what is the service period of each road category.. Although on paper old Soviet Union standards still apply, nobody is following them in practice. There is no system of control over the quality of work performed.

The State Committee for Standardization, Metrology and Patents should develop full range of government requirements and standards for roads. As a matter of fact after the collapse of the Soviet Union no such standards were developed in Azerbaijan so far. There are regulations of the Cabinet of Ministers "On the rules of construction, maintenance and operation of the reception to the highways." In any case, the legal framework in Azerbaijan related to roads, is very limited. At the same time a separate law about roads exists, which specifies the list of categories of roads in the country.

As it became known the State Committee on Standardization, Metrology and Patents began work on the creation of the National Technical Committee on Road Traffic. As noted in the recently released report, the creation of the National Technical Committee in the country is planned in conjunction with other competent authorities. As noted, the new committee will be developing national standards of road safety and will be dealing with road signs, junctions, interchanges, etc.

According to the analysis of various data, Azerbaijan is in the lowest 10 among 45 countries in Western and Eastern Europe judged by technical requirements and quality standards of highways. In our opinion, the issue of improvement of road conditions in Azerbaijan up to certain standards can be brought up once a set of road standards is developed

Under the current legislation, namely the rules of the Cabinet, a special commission should be created including the number of representatives from both government agencies and client organization for the acceptance of the road as fit for use. In case of shortcomings client can apply certain sanctions against the contractor. In fact, on the website of the Ministry of Transport it is almost impossible to find a copy of signed contracts for the construction of traffic lanes in the country by the JSC "Azeryolservis. Ideally the terms and conditions of these contracts should be available from a public source, namely the Ministry's website.

For Azerbaijan, it should be recognized that chances to ensure that the contractor implements high standards, including the requirements of the EU in the field of occupational safety and environmental protection, are extremely low.

One solution to the problem of standards is the introduction of European standards of construction in the country. It should be noted that the procedure for the introduction of a foreign standard is simpler than the procedure of development and implementation of set of domestic standards. European standards developed by the EU, draw upon an engineering experience and best practice of the advanced countries of Europe and should be used in our country, taking into account however local conditions. The EBRD's role in the adoption of European standards of construction in the country will be indispensable.

## **2.4 Gender policy**

As can be seen from the protocol of the public discussion of the project there were no women participating in it. The passive role of women in the regions is associated with the settled mentality, as

well as with the fact that there are no women's non-governmental organizations that could enhance civil society, develop their skills and promote the development of leadership qualities. As a result, the foundation of public life, for example - negotiation and discussion, the resolution of the various conflicts, banking and credit, the distribution of the municipal budget remain inaccessible to women. During the monitoring period it became clear that all beneficiaries have incomplete information about the construction of the road. However, men and women have different sources of information regarding the projects. Women learn about the projects mostly from men. Thus, we can say that the management and decision-making in the regions of road construction are carried out mainly by male population, and this leads to the dominance of men's own interests in the process of decision-making.

### **3. Conclusions**

As a result of our research, we came to the conclusion that current situation of closed public access to information on the category "B" projects is unacceptable. These projects are, by definition of the Bank, those "whose impact on the environment in the future could potentially be great, but is easy to identify, assess and mitigate because of their nature, size and location." Even on the basis of this definition it is clear that public participation in the evaluation of such projects would not be superfluous to reduce their dangerousness. And given the fact that, sometimes, as in this case, projects which meet all criteria of category "A", are classified as Category "B" projects, the closed nature of such projects and absence of public scrutiny becomes even more serious problem.

Therefore it is necessary to make available to the public materials of environmental analysis and evaluation of projects classified as "B" in a period of not less than 60-90 days prior to the consideration of these projects by the Board of Directors of the Bank and to introduce a requirement for public consultation on such projects.

The current situation in our opinion, is the result of multi tranche loan allocation schemes. In the past in the usual scheme the technical assistance (including the preparation of the ESIA) was released in the form of a grant was not part of the loan. Today, as per the multi tranche system the technical assistance is included in the loan itself. And so the customer is not interested in conducting a full EIA for all projects to be included in this package of multi tranche. In Azerbaijan the idea of the environmental assessment process is still widely regarded as costly procedure. IEE is prepared for a single project, as in the case under review.

The multi tranche mechanism looks like this: The state receives a large sum from the Bank on a particular sector and prepares for this a roadmap, strategic content, the frame for the development of the transport sector investment program and financial plan. After the preparation of these documents, the state receives a large amount of money. After that, for each particular project the State takes the money out of this common pool for the implementation of a sub-project. And for the following sub-projects IEE are sometimes conducted, but the ESIA document is not prepared as the project was originally was originally category B.

In general, this is already a norm in the activities of the IFIs. Already, the World Bank and ADB loans are given out on this way. Projects previously attributed to the category A projects are now rated as category B. Environmental documents for category B projects are not required to be translated, etc. And this trend is present not only in our country, but in many other countries, and this certainly leads to adverse environmental effects.

Also we believe it is important to note that implementation of policies and requirements of the international financial institutions (IFIs) in Azerbaijan are often an effective mechanism for the preparation of eco-secured projects of economic activity. The declared and implemented policies and requirements of the EBRD and the International Finance Corporation (IFC) complement and stimulate the enforcement of the national legislation, creating conditions for further development.

At the same time, we want to point out a number of requirements which are not quite clear to us and we look forward to working to reduce as much as possible the likelihood of accidental or subjective assessments and decision-making, for example

- the classification of objects
- the definition of project scope;
- in determining the extent (depth) of required studies including for associated projects.

Experience shows that the following are effective mechanisms to ensure policies and requirements for the protection of the environment, reduce the problems of unclear requirements, evaluation criteria and the scale of project studies are:

- classification of the projects;
- Use the special procedures for environmental studies and assessments;

- differentiation of environmental assessment procedures for different types of activities and conditions;
- openness and transparency of the environmental assessment;
- Organization of inter-agency coordination at the stage of formulation of project requirements;
- harmonization of technical specifications based on the results of preliminary expert evaluation;
- monitoring and reporting;
- openness of environmental assessment materials for the peer review.

In the materials available to the public some of these mechanisms have been mentioned. However, in our opinion, the development, establishment of unambiguous requirements and specification of their use remain as relevant tasks. In this regard, it seems appropriate to treat the development of policies and requirements pertaining to these issues as a separate task.

Based on previous experience, it seems reasonable and appropriate to classify the projects based not only on environmental criteria, but also on social aspects.

## **5. Recommendations**

- Need to improve communications strategy for timely informing the public about the projects to be funded in the initial stage, taking into account the Bank's gender policy;
- Provide translation into the national language of the main documents and make it available for public inspection in the early stages of the project for public to participate in decision-making;
- It is necessary to ensure transparency and openness in the public consultation;
- Road projects have a huge impact on the environmental and social aspects and it is essential to ensure the holistic, integrated, full strategic environmental assessment for each of the projects under multi tranche loans;
- Ensure the development of the version of the package "Performance Requirements", adapted to the law and practice of project activity in the AR;
- Ensure the development of a common format environmental assessment procedures defined by the requirements of the Azerbaijani legislation and MFP;

- Create an organization for continuous monitoring of the implementation of policies and requirements of the Bank with the participation of local experts;
- Initiate the process of adopting European standards in Azerbaijan in the construction of highways.

**The photos of the reconstructed sections of the road.**

