STATE OIL COMPANY OF AZERBAIJAN REPUBLIC

ECOLOGICAL DEPARTMENT

AARP III: LARGE SCALE OIL POLLUTED LAND CLEAN-UP PROJECT

ENVIRONMENTAL MANAGEMENT FRAMEWORK

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ABBREVIATIONS

EC – European Community
ED – Ecological Department
EA – Environmental Assessment
EIA – Environmental Impact Assessment
EMF – Environmental Management Framework
EMP – Environmental Management Plan
EU – European Union
MENR – Ministry of Environment and Natural Resources
NGO – None-governmental organization
PEE – Public Ecological Expertise
SEE – State Ecological Expertise
SEP – State Ecological Program
SOCAR – State Oil Company of Azerbaijan Republic
UN – United Nations
UNDP – United Nations Development Program
WB – World Bank

1. Introduction

1.1 General Information about the Project

In accordance with the decree of the President of Azerbaijan Republic to improve environmental situation in Absheron Peninsula signed on September 28, 2006, a decision is made to develop and implement State Ecological Program (SEP) which includes comprehensive measures. Main part of the project focuses on cleanup and remediation of oil polluted lands nearby Baku city and on Absheron peninsula. Program implementation includes participation of SOCAR and various ministries.

In compliance with the above-mentioned decree, SOCAR management has developed a comprehensive plan of actions covering 2006-2010 years for improving environmental situation in oil and gas fields. The plan includes implementation of concrete organizational, technological and economic actions to improve condition of air, soil and water environment. The plan also contains cleanup of oil polluted soils, and this mission is assigned to Ecological Department (ED) of SOCAR.

World Bank has identified number of ways to assist to Azerbaijan Republic with realisation of SEP. Some of these options include investments in main projects, assistance in management and implementation of SEP, assistance in development of main policies.

One of the investment options concerns pollution of high priority, “inherited” oil fields polluted as the result of oil and gas production, refinery, storage and transportation activities in Soviet era. Approximately 20-22 thousand ha of land in Absheron peninsula is polluted with oil and other petroleum hydrocarbons, domestic and industrial wastes.

Currently discussed project considers the use of high power (semi) mobile cleanup technologies in soil remediation operations which will clean soil in polluted areas; cleaned soil will be reused in remediation of the cleanup areas; and waste deposits other products used in soil cleanup, such as water/agents will be removed from cleanup areas.

1.2. Objectives of Environmental Management Framework

EMF objectives are identification of legal, institutional and social frameworks of environmental management during cleanup operations.

Environmental Management Framework (EMF) is developed for SOCAR. This document has been prepared in close association with EMP and Technical Assessment (TA) which have been developed within the framework of World Bank assistance to SOCAR for remediation of oil polluted lands of Absheron peninsula.

2. LEGAL AND ADMINISTRATIVE FRAMEWORK

2.1. General Legislation Issues

The Constitution of Azerbaijan Republic (article 148) determines the following hierarchy for acts of legislation:

- Constitution;
- Acts adopted in referendum;
- Laws;
- Decrees;
- Resolutions of the Cabinet of Ministers;
- Orders of central executive powers;
- International agreements and conventions ratified by Azerbaijan Republic (if they do not conflict with national legislation);
- Acts of legislation and acts adopted in referendum have precedence over other laws.

As the Constitution contains a separate article about international agreements, they become effective immediately after ratification without any requirement for additional act of legislation. If provisions of conventions are not in conflict with the Constitution, there is no need for adaptation of conventions to national legislation. On the other hand, if a convention requires authorized party from each country for establishing special conditions, then the convention can not be applied apart from national legislation.

2.2 Legal and Regulatory Framework on Environmental Management

Base acts of legislation in Azerbaijan regulating environmental assessment (EA) are given in Table 1.

Table 1

Main Environmental Laws

Acts of legislation	**Year adopted**
Environmental Protection Law	1999
Environmental Safety Law	1999
Specially Protected Natural Areas and Objects Law	2000
Radiation Safety of Population Law	1997
Sanitarian-epidemiological Safety Law	1992
Protection of Atmosphere Law	2001
Soil Code	1999
Industrial and Domestic Wastes Law	1998
Water Code	1997
Radioactive Wastes Law	1994
Soil Productivity Law	2000

One of the main laws on protection and regulation of effective use of environment is Environmental Protection Law (1999). The Law states main principles of preservation of nature, rights and obligations of government, public institutions and citizens in this area; determines objectives of users of nature in conducting environmental monitoring; establishes term of "ecological insurance" for dangerous activities, and volunteer and compulsory environmental audit of economic activities. Basic responsibilities for violation of legal requirements for environmental safety have been formulated.

2.3. State Ecological Expertise

Main goals and objectives of State Ecological Expertise (SEE) and Public Ecological Expertise (PEE) have been established in Environmental Protection Law. Implementation of recommendations of State Ecological Expertise is compulsory. Public opinion is necessary for making optional or alternative decisions, but different from environmental expertise (EE) and SEE recommendations, this is informative and suggestive.

2.4. Environmental Impact Assessment Framework

In 1996, Azerbaijan Government adopted amended EIA procedures corresponding to the systems applied in many other countries. New rules have been described in the Regulations for Conducting Environmental Impact Assessment in Azerbaijan Republic (UNDP/State Environmental Committee, 1996). These Regulations state that "works for assessing wastes thrown into environment should start in the beginning, i.e. in the planning stage and before technical-economic assessment." According to Environmental Protection Law, development of EIA document for all projected enterprises having potential impact on environment is compulsory.

2.5. Legal Framework of Soil Use and Soil Protection

Use of soil as one of the components of environment is regulated by above-mentioned laws. Main act is ***Soil Code (1999)*** which sets compulsory requirement for remediation of all soils after their use, including soils where mining works have been conducted.

According to ***Soil Productivity Law (2000),*** land owners, leasers and land users must protect productive top layer of soils while conducting remediation of lands. According to the Law, remediation of soils lost their productivity should be performed not later than 3, 3-5 and 5 years depending on specifics of soil.

According to ***Environmental Safety Law (1999)*** users of earth interior are responsible for bringing damaged soils and other natural resources into useful condition for their future use.

According to ***Environmental Protection Law*** users of natural resources must adhere to all environmental and technological requirements, valid standards and quality and quantity norms set for environment. According to the 38th article of the Law, users of natural

resources are obliged to take measures for recultivation of lands, to restore and efficiently use natural resources, and to renovate areas and to bring environment into healthy condition.

In compliance with soil use and soil protection legislation, all individuals and legal entities using surface and underground natural resources for various purposes should clean up, remedy and return soils to State Soil Fund. Future use of soil is determined by resolution of the Cabinet of Ministers.

2.6. World Bank Policy on Environmental Management

The World Bank requires an environmental assessment (EA) of projects proposed for Bank financing to help ensure that they are environmentally sound and sustainable, and thus improve decision making (OP 4.01, January 1999).

EA is the process, the volume, depth and type of which depends on potential ecological impact, features and volume of a proposed project. EA evaluates the potential ecological risks of a project and its impact to the territories covered by the project; analyses alternatives of the project; determines ways for development of choice, location, planning, design and execution of the project, by taking measures on mitigation, compensation and bringing to minimum of harmful ecological impacts and strengthening its positive impacts to the environment. The Banks prefer preventive measures, if any, to mitigation or compensation ones.

The EA takes into account the environment (air, water and land); human health and safety; social aspects (obligatory resettlement, residents and cultural heritage property); and transboundary and global ecology aspects. At the same time it takes into account all changes taken place in the project and country; results of ecological studies held over the country, plans of local ecological measures; common political framework of the country, local legislation and institutional possibilities on ecological and social aspects; obligations of the country on international Agreements and Treaties concerning the projects activities. The Bank doesn't fund the project activities which are contrary to such country's obligations as it would be determined during the EA.

World Bank key considerations to be taken into account during the EA process include:

- Generic initial screening to determine appropriate environmental assessment;
- Compliance with existing environmental regulations in Azerbaijan;
- Linkages with social assessment;
- Analysis of alternatives;
- Public participation and consultation with affected people and organizations; and
- Disclosure of information.

3. ENVIRONMENTAL MANAGEMENT INSTITUTIONS AND RESPONSIBILITY

3.1. Environmental Management Institutions

Azerbaijan Government is responsible for environmental protection in Azerbaijan. The central governmental institution conducting control over environmental protection is the Ministry of Ecology and Natural Resources (MENR). The MENR is commissioned to control over implementation of environmental protection laws, norms and standards.

According to 42nd article of Environmental Protection Law, EIA shall be conducted by independent experts and exposed to public consultations. The document becomes effective after recommendation of SEE. SEE is part of the MENR.

The MENR also approves Environmental Passports and issues licenses for dangerous waste management.

State Committee on Soil and Topography regulates use of soil, and State Registration of Real Estate Service carries out registration of real estate, including registration of land owners.

The Ministry of Economic Development (MED) issues licenses for the sale of oil and oil products.

The Ministry of Emergency Situations (MES) is the responsible institution for management of natural disasters and industrial accidents. MES also controls the implementation of safety rules in construction, mining and industry.

The Ministry of Health is the state institution controlling the sanitarian-epidemiological situation in the country. The ministry also regulates health protection in work places.

State Metrology and Standardization Service determines relevance of and quality and quantity standards for units of measurement, and carries out governmental policy in this area.

Norms and rules established for implementation of acts of legislation are compulsory for all institutions regardless of their legal form. Norms and rules become effective after being approved by the Cabinet of Ministers.

All organizations have health, safety and environment department. They provide implementation of all norms, rules and standards, and are responsible for conduction appropriate documentation and trainings.

It should be noted that sometimes uncertainties and parallelisms are encountered in environmental management. This is mostly due to indefiniteness in legislation and regulations, in other cases, is the result of misuse of power by ministries. For example,

SEE in MENR carries out EIA and expertise Ecological Passports in one hand, and Ecological Centre in MENR prepares EIA. This is contrary to rules established in EIA Guidelines (i.e. EIA should be prepared by independent consultants).

Another problem is poor coordination of activities among authorized institutions. This sometimes causes conflicting issues. Such kind of issues include, but not limited to, standards control, private ownership and state registration of lands, and etc.

To solve the above mentioned problems, relevant changes to regulations and strengthening control over their implementation are required.

3.2. Environmental Standards. Recommendations

All standards and recommendations on quality criteria and standards for soils valid in Azerbaijan are described in detail in EMP document.

Many of the current standards, including soil quality criteria, maximum concentration limit and etc. are old, do not match with international standards and cause problems in environmental management. Development of standards within a certain country in separate is a very difficult and complicated issue. On the other hand, national standards should correspond with standards identified by international system.

Currently many foreign companies operating in Azerbaijan use not national, but international standards.

Azerbaijan Republic is member of international organizations on environment and standardization. Partnership and Cooperation Agreement (PCA) between European Union member countries and Azerbaijan (signed on April 22, 1996 in Luxemburg) became effective from June 22, 1999, which indicates high level of cooperation between the two sides (http://www.mfa.gov.az/az/international/ organizations/union.shtml.).

According to article 50 of this agreement, Azerbaijan should attempt to “Promote use of technical rules of the Union in this area and application of European standards and compliance evaluation methods” within “Cooperation in the area of standards and compliance evaluation”. Under article 50 of the Agreement – “Environment” Azerbaijan has taken commitment to “Improve national legislation on the basis of European standards”.

European Commission recommendation on involving South Caucasus countries in European Neighborhood Policy (ENP) was confirmed in Brussels Summit of heads of states and governments of European Union countries held on 17-18 June, 2004 (http://www.mfa.gov.az/az/international/organizations/union. shtml). Within the framework of European Neighborhood Policy “European Union - Azerbaijan Joint Plan of Actions” was signed in 2006. The following are recommended to Azerbaijan in this document:

- *Integrating into EU and international legislation and management practices in the area of standards, technical regulations and evaluation of compliance;*

- *Improving procedures and institutes for evaluating factors affecting environment, including adopting and applying relevant laws;*
- *Preparing framework legislation and main procedures, and providing the planning for main environmental sectors, especially for air quality, water quality, management of wastes, protection of environment classified in national plan of actions on environment, and continuing the process pf adapting to European requirements.*

With regard to above-mentioned recommendations, using European Union standards for evaluation and remediation of oil polluted soils and adapting them to Azerbaijan environment is more suitable.

Analysis also show that most of the oil polluted soils in Azerbaijan can be classified as high and very high polluted soils, if European criteria are applied. Application of European norms and standards can also facilitate the comparison of conducted assessments and accelerate Azerbaijan's integration into international systems in the area of improving environmental situation and sustainable development.

Conducting relevant researches and assessments, implementing organizational improvements in national level and taking initiatives by government is required for applying international norms and standards in Azerbaijan and adapting them to local circumstances. Joint analysis and assessments shall be carried out by institutions mentioned in Section 2.3 of this document, as well as National Academy of Sciences and the Ministry of Agriculture. Proposed suggestions are approved by the Cabinet of Ministers. SOCAR should widely cooperate with relevant executive and legislative authorities of Azerbaijan.

3.3. Increasing Requirements for Responsibility

SOCAR and its Ecological Department carry responsibility for all stages of the project and guarantee its full implementation. All components of the project will be carried out in strict compliance with Health, Safety and Environmental protection (HSE) rules during its implementation.

As the project will be carried out in oil fields and subsidiaries of SOCAR, application of technical and HSE requirements will not be difficult. That is involvement of other ministries and institutions will not be required.

Coordination group will be created in SOCAR for effective implementation of the project. This group will be coordinating and controlling organizational, technical and financial issues related to the project.

As the project is aimed at environmental improvement, implementation of EMP will promote the generation of not social problems, but additional social stimuli. At the same time, consultations with public and NGOs will play great role in increasing the responsibility.

4. ENVIRONMENTAL ASSESSMENT AND MANAGEMENT

4.1. Environmental Assessment

Remediation of oil polluted lands project comply with environmental laws and regulations of Azerbaijan Republic. The project is also relevant to World Bank Warranty (http://www.mca.gov/guidance/IEG.shtml) and EA procedures (OP/BP 4.01) (http://lnweb18.worldbank.org/ESSD/sdvext.nsf/52ByDocName/SafeguardPolicie), and Information Disclosure Policy (http://wwwl.worldbank.org/operations/disclosure) of the Bank. In all cases, the project will be implemented in compliance with EIA Regulations (Regulations on Environmental Impact Assessment in Azerbaijan Republic), norms, rules and standards will strictly be followed.

The project has been assessed as a Category B project under the environmental safeguards criteria of the World Bank. It is anticipated, that project activities will not trigger the process of full-scale analysis of impacts to ecology. A Category B project has potential adverse environmental impacts on human populations or environmentally important areas - including wetlands, forests, grasslands, and other natural habitats - which are less adverse than that of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigatory measures can be designed more readily than for Category A projects.

Technical tasks for project development have been worked out by World Bank and introduced to SOCAR.

Environmental Impact Assessment process is described in a table in Annex 2. The following potential impacts are expected during all stages of project implementation:

- Dust;
- Emissions;
- Waste waters;
- Solid wastes;
- Noise;
- Emergency cases and dangers;
- Dwellings and impacts on people.

4.2. Environmental Management

The main objective of environmental management is to mitigate negative environmental and social effects; minimize environmental risks; follow HSE rules; and carry out current and strategic plans aimed at health protection during soil cleanup and remediation operations in project areas.
Components of the system determining environmental management are the following:

- Objectives and responsibilities of project implementer;
- Project object assessment;

- Waste and risk assessment and management;
- Information and documents;
- Exploitation of equipment and transports and provision of technical services;
- Management of changes;
- Services by other institutions;
- Study of accidents, analysis and elimination of their results.
- Public information;
- Increasing and assessing reliance of planned works.

The objective of this EMP is to ensure the integration of environmental issues and proposed mitigation into the detailed design and implementation. To achieve satisfactory implementnation of cleanup works and operation of facilities, this EMP will ensure that: (a) implementation is monitored; (b) adverse environmental impacts are mitigated; (c) implementation will meet the requirements of the environmental law of the Republic of Azerbaijan and the World Bank safeguard policies.

The following are the sections of EMP:

- Management of wastes thrown into atmosphere;
- Management of waste waters;
- Management of solid wastes;
- Management of spills, leakages and accidents during transportation;
- Management of noise;
- Fire safety measures;
- Management of emergency situations;
- Management of health and safety.

4.3. Environmental Monitoring

Conducting monitoring is the most critical strategic means for full environmental management. Planing the monitoring allows to identify and foresee potential impacts.

Project monitoring plan includes conducting standard monitoring on environment, as well as continuous monitoring in emergency situations. Besides this, regular observations and researches can be suggested for additional assessments. Monitoring should cover all stages of the project, even after completion of project implementation observations and quality measurements shall be continued for five years.

4.4. EMP Implementation

This project will be carried out by SOCAR ED and ED will be responsible for environmental management. ED departments are responsible for the implementation of the following sections of EMP:

1. Management of wastes thrown into air:

- Transportation and Heavy Equipment department will control technical condition of transport means;
- Safety, Environment and Quality Control Service will carry out safety observations on transports, heavy equipment and remediation plants; train personnel; determine places for locatiing safety equipment, including fire fighting equipment; control over good technical condition of equipment;
- Ecological Expedition and Comprehensive Research Laboratory of Environmental Monitoring Department will conduct regular visual assessments; perform measurements with special devices in-the-area and in laboratory; measurements will be carried out continuously in emergency situations.

2. Management of waste waters:

- Project Estimation Department of ED will plan removal of waste waters from soil cleanup areas; Construction Service branch will construct concrete canals, pipelines and etc. for conveying water to water injection facilities;
- Soil cleaning shop is responsible for recycling waters generated in soil cleanup processes in water cleaning plants or conveying them to water injection facilities (or to sewer system);
- Waters which can not be cleaned under standard circumstances will be cleaned at the Branch for Cleaning Industrial Waste Waters;
- Domestic waste waters will be removed from sites or conveyed to sewer system by Utility Services by the order of ED;
- Ecological Expedition and Comprehensive Research Laboratory of Environmental Monitoring Department will regularly check water pollution level. Monitoring will be conducted before and after cleanup operations.

3. Solid waste management:

- Old wastes will be removed from cleanup areas by Construction Services and Transportation and Heavy Equipment Department;
- Petroleum hydrocarbons generated by soil remediation plants will be transported by consumers after being identified by Marketing and Purchasing Department. Transportation and safety procedures will be agreed and documented between ED and consumers.
- Waste center will collect and utilize dangerous wastes which can not be recycled;
- Ecological Expedition and Comprehensive Research Laboratory will conduct regular monitoring on quality indices before and after soil remediation.

4. Management of spills and leakages during transportation and accidents:

- Safety, Environment and Quality Control Service will carry out technical control over transport means, special equipment and units together with Transportation and Heavy Equipment Department to prevent spills and leakages;
- According to emergency situations management plan, all ED departments will be participating in eliminating accidents and fires;
- In case if emergency situations will come out of control, other departments of SOCAR and special troops of the Ministry of Emergency Situations will be involved in preventing these situations in short period of time;
- Ecological Expedition and Comprehensive Research Laboratory will conduct continuous monitoring.

5. Noise, Health and Safety management:

- Safety, Environment and Quality Control Service and Social Development Department will be controlling working environment of personnel; special uniforms and protective equipment for them; and sanitarian-hygienic condition in areas assigned for personnel rest;
- Construction Services will set up noise absorbing walls in sites nearby dwellings and public buildings to minimize impacts of noise on people;
- Safety, Environment and Quality Control Service will conduct regular trainings on health and safety protection for personnel and keep records;
- Environmental Expedition Group will carry out regular monitoring.

6. Public consultations. Disclosure of information to media, NGOs and local population will cover all stages of project implementation. International Relations department of ED will place information about project activities in websites of SOCAR, ED and NGOs; conduct briefings; and release information to the press regularly.

5. SOCIAL FRAMEWORK OF THE PROJECT

5.1. Social-economic impact assessment

Oil polluted soil cleanup project in Absheron peninsula is the biggest project of its scale in the region so far. Therefore identifying its potential social-economic impacts, assessing its results, as well as developing appropriate measures and recommendations for eliminating or mitigating its possible negative effects (if there is any) and conducting assessments during and after project implementation is one of the most important stages.

World Bank requires poverty and social impact analysis in all of the projects financed by itself (OP 8.60 – Development Policy Lending, OP 1.00 – User's Guide on Poverty and Social Impact Analysis). These requirements comply with all laws valid in Azerbaijan and international agreements and treaties ratified by Azerbaijan.

As pilot areas cover industrial zones, as well as rapidly urbanizing big settlement, including Baku city and its suburb, social and economic assessment and studying potential impacts is very critical.

Initially general social and economic environment is assessed. Inhabitation, population density, generic social indices, economic and geographical environment of the area are assessed. Finally, assessments on particular subjects are carried out.

Relocation of people is not planned in the project. But a plan of actions is included in EMP for eliminating disturbance factors for people living nearby cleanup areas.

Proper use of oil polluted lands in project areas after remediation increases social importance of the project. Various options of future use of lands will be reviewed after remediation depending on geographical location of the cleanup areas, traditional habits of people living nearby and inhabitation problems. Prices for land in the market will also be analyzed and assessments will be conducted on particular areas.

Demand, as well as high prices for land in Absheron peninsula (approximately from 80-100 thousand to 400-500 thousand USD per ha) also increase attractiveness of the project.

According to soil laws of Azerbaijan Republic, soils shall be cleaned and returned to State Soil Fund after their use for industrial purposes. Future use of soils is determined by order of the Cabinet of Ministers. Detailed information about this issue is given in Section 2.4.

One of the social aspects of the project is the assessment of its positive impact on employment and development of work skills. New engineering and technical skills of local personnel can be developed by using modern remediation equipment. Permanent jobs can improve employment level of population, especially among young people. This is guaranteed by long period of time required for remediation works, as the area of oil polluted lands in Absheron peninsula is more than 20 thousand hectares.

Another social-economic aspect is that reuse of oil products generated by soil cleanup process (bitumen, wax, crude oil and etc.) can compensate for some of the project expenses. Reuse of generated oil products can also affect employment positively.

5.2. Other Aspects of the Project

This type of projects can potentially have the following level of social and economic impacts:

- *National, regional and local;*
- *Direct and indirect*.

National level impacts can be the following:

- *This project is the first and biggest soil remediation project and fully comply with all programs on improvement of environmental situation policy of Azerbaijan Government;*
- *Successful implementation of the project is very important for promoting polluted soil cleanup projects in other regions of Azerbaijan, as well as spreading experience gained in Caspian Sea region;*
- *The project will assist SOCAR in implementation of SEP and facilitate its accomplishment;*
- *The project will be the best example for development and accomplishment of National Strategy for remediation of oil polluted lands in Absheron peninsula and entire Azerbaijan*.

6. PUBLIC CONSULTATIONS FRAMEWORK

According to Environmental Protection Law, consultations with local population and NGOs must be conducted and their participation should be provided in all stages of implementation of all projects. These consultations will have great importance when project activities directly affect these communities. Natural and social environment must not be changed to their detriment, and any change directly affecting local community shall be made conditional to their prior consent. Representatives of local communities affected by the project and NGOs should be involved in consultations. Azerbaijan has joined Convention on Access to Environmental Information, Public Participation in Decision Making Process and Access to Justice in Environmental Matters (Arhus, Denmark, 1998) in 1999.

Public consultations will be conducted and press releases will be disclosed in all stages of the project implementation in compliance with Azerbaijani laws on NGOs and Media, as well World Bank Policy on Disclosure of Information (http://wwwl.worldbank.org/operations/disclosure). Information about the project will also be disclosed on internet sites of SOCAR ED and Caucasus Environmental NGO Network (CENN).

Conflict resolution and handling complains. Any conflict with local people during the project implementation is not foreseen, because most of the cleanup operations will take place only in the area of oil fields and away from dwellings. If any conflicts, these will be solved through mutual discussions.

Claimants can bring issues to ED and SOCAR in case of the conflict of interests. If they do not get satisfactory answer to their complains, they can bring issues to local and central executive bodies as established by legislation.

ANNEX 1. ENVIRONMENTAL CATEGORIES

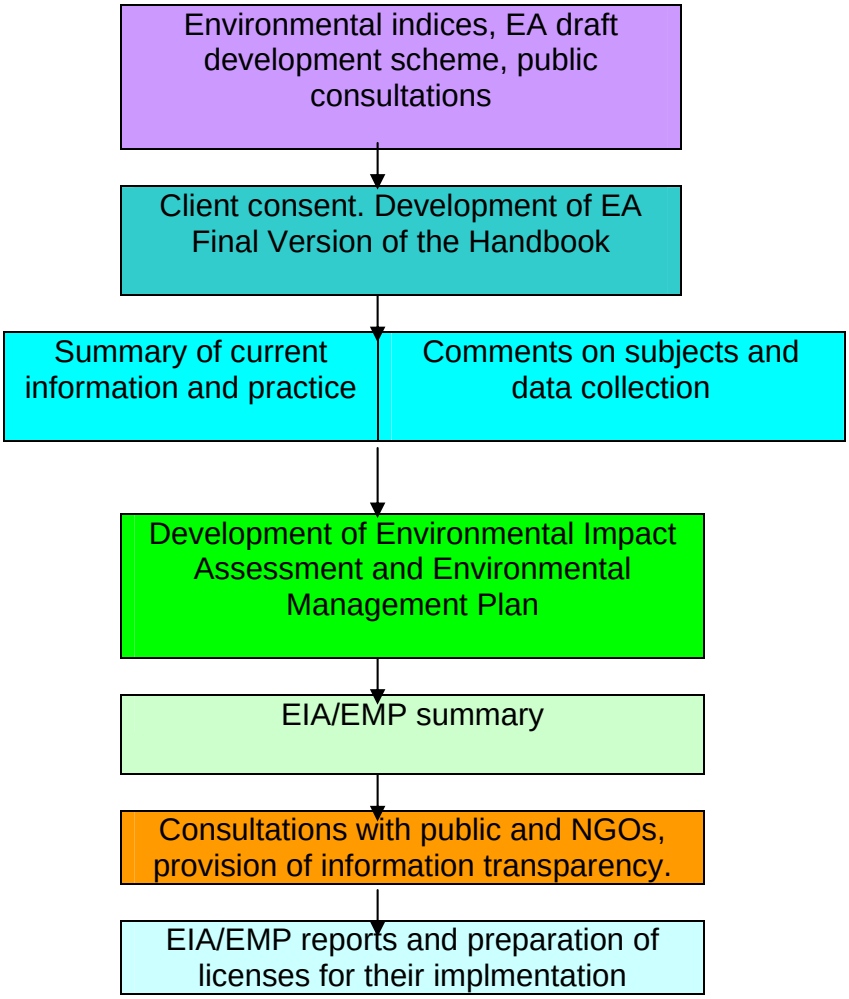
Bank Category A (Azerbaijan Law Category 1): A Category A project is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works, can cause serious and irrevocable impact upon the environment or human health. The EIA for a Category A project examines the project's potential negative and positive environmental impacts, compares them with those of feasible alternatives (including the "without project" scenario), and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance for a Category A project. The borrower is responsible for preparing a report, normally an Environmental Impact Assessment (or a suitably comprehensive regional or sectoral EIA).

Bank Category B (Azerbaijan Law Category 2): A Category B project has potential adverse environmental impacts on human populations or environmentally important areas - including wetlands, forests, grasslands, and other natural habitats - which are less adverse than that of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigatory measures can be designed more readily than for Category A projects. The scope of EIA (EA) for a Category B project may vary from project to project, but it is narrower than that of Category A assessment. Like Category A, a Category B environmental assessment examines the projects potential negative and positive environmental impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance.

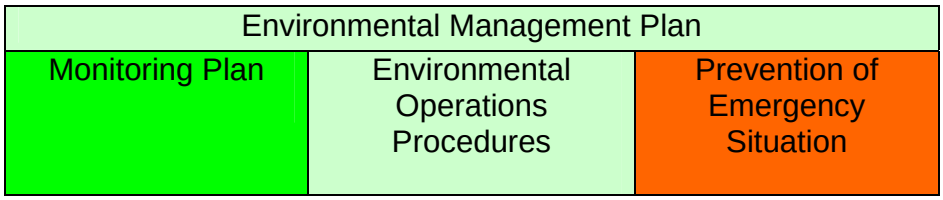
Bank Category C (Azerbaijan Law Category 3-4): A Category C project is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EIA action is required. Category-C includes activities, the scope, location and content of which will not bring about serious impact on the environment.

Bank Category FI: A Category FI project involves investment of Bank funds through a financial intermediary (FI), in subprojects that may result in adverse environmental impact. (also known as Category F). Sub-projects may be defined as Category A, B or C within the FI Category1. Where FI operations are expected to have Category A sub-projects, the PFI will provide to the Bank a written assessment of the institutional mechanisms for sub-project EIA. This is done prior to the Bank's appraisal of the PFI and may include identification of measures to strengthen the EIA capacity of the PFI. If the Bank is not satisfied that adequate EA capacity exists within the PFI, all Category B sub-projects EIA reports and, where appropriate, Category B sub-project EIA reports, are subject to prior review by the Bank. It is important that the project management unit and the lending institution be able to identify activities for which funding is being requested and which may fall into either of the World Bank's Category A or Category B (for the most recent information on environmental categories see Website (www.worldbank.org/ environment)

ANNEX II. ENVIRONMENTAL INDICES, ASSESSMENT AND MANAGEMENT



Project Implementation/Monitoring



ANNEX III. CONSULTATIONS AND DISCLOSURE OF INFORMATION