

TERMS OF REFERENCE

Transport dialogue and interoperability between the EU and its neighbouring countries and Central Asian countries

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1. BACKGROUND INFORMATION

1.1. Beneficiary country

The beneficiary countries are Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan and Ukraine. Bulgaria, Romania and Turkey should be associated to the project as TRACECA members.

1.2. Contracting Authority

The contracting Authority is the European Commission EuropeAid Cooperation Office in Brussels.

1.3. Relevant country background

The technical assistance programme for the development of the transport corridor between Europe and Asia across The Black Sea, the countries of South Caucasus, The Caspian Sea and the Central Asian Countries – The TRACECA programme – was launched in May 1993 with the aim of strengthening economic relations, trade and transport communications along the corridor regions. The legal basis for the TRACECA programme as a multilateral framework of co-operation was established in September 1998 at a summit in Baku where the “Basic Multilateral Agreement on International Transport for Development of the Europe-Caucasus-Asia Corridor” (MLA) was signed by heads of state. The twelve signatory states of the MLA are Armenia, Azerbaijan, Bulgaria, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkey, Uzbekistan and Ukraine. Turkmenistan is a participating country in the Tacis TRACECA programme, but is not a member of the MLA.

In 1998, an Intergovernmental Commission (IGC) comprising government officials from TRACECA countries was established to oversee the implementation of the programme. The IGC Permanent Secretariat (PS) is located in Baku and is supported by representatives of TRACECA member states, termed National Secretaries. Since 2006, funding of the PS has been made directly from contributions through TRACECA member countries. Previously, the PS was funded by the European Union. As from 2008, the EC has been financing the organisation of joint TRACECA and Baku Initiative Working Groups' meetings.

Following the 1st Ministerial conference on transport cooperation between EU Black Sea-Caspian littoral states and their neighbours (Baku Initiative), the country participants confirmed their mutual interest for the progressive integration of their respective transport networks in accordance with EU and International legal and regulatory frameworks. Moreover, they recognised the importance for enhanced regional cooperation in the transport sector for achieving sustainable economic and social development as well as contributing to peace and security, stability, environmental sustainability and prosperity in the region.

Five expert working groups were set up, covering Civil Aviation, Security in all modes of Transport, Road and Rail Transport, Transport Infrastructure and more recently Maritime Safety. The objective of the working groups is to reinforce EU cooperation with the countries in The Black Sea and Caspian regions and amongst countries of the region. Whenever possible, the Working Groups are held jointly with TRACECA meetings. At the 2nd Baku initiative Ministerial Conference held in May 2006, recommendations developed by the working groups were discussed and adopted to establish a framework for ongoing cooperation between the EU and partner countries.

Expansion of the major trans-European Transport Axes

Following a Ministerial seminar held in Spain in 2004, the EC established a High Level Group (HLG) on the “Extension of the major trans-European transport axes to the Neighbouring Countries and Regions”. As well as aimed at integrating the networks of the new EU member states, the

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purpose of the initiative was to extend the concept of the EU's European Neighbourhood Policy (ENP) into the transport field and to seek better ways to connect Europe with the neighbouring countries and regions. The EU Neighbourhood Policy is a framework agreement established between the EU, EIB and EBRD where the three parties have signed a MOU to facilitate cooperation in Eastern Europe, South Caucasus, Russia and Central Europe.

The High Level Group identified five major trans-national axes: Motorways of the Sea, Northern Axis, Central Axis, South Eastern Axis and South Western Axis. These five axes extend and complement the major axes of the trans-European transport network by inter-connecting them with the networks of the neighbouring countries. In addition to defining the axes, the High Level Group identified a number of projects which involve funding of around Euro 35 billion between now and 2020.

The Group also addressed financing issues and emphasised the importance of national governments in making adequate provision for budget allocations in the transport sector. In addition, ensure wherever possible to attract private capital alongside public financing through PPP. To make this happen it was important to ensure regular meetings and exchange of dialogue between all relevant parties, governments, public bodies, IFIs and commercial banks. In particular, for all countries to focus on the requirements for appropriate legislation to facilitate PPP arrangements drawing upon best international practices.

The Group also recommended a number of measures to be taken to speed up the removal of non-physical barriers and for more effective communication between countries in the area of border control procedures for Maritime Transport, Rail Transport Interoperability, Inland Waterways and Air Transport, all aimed at implementation of horizontal measures for the simplification of border crossing procedures.

The three axes which impact upon TRACECA are:

- Motorways of the Sea
- Central Axis
- South Eastern Axis

The Central Axis links the centre of the EU to Ukraine and the Black Sea and towards the Caucasus and Central Asia. The South Eastern Axis links the EU through the Balkans and Turkey, to the Caucasus and the Caspian Sea.

In addition to the neighbouring countries of the EU, the EC also recognises the importance to continue to involve the Central Asian States in the axis approach through their ongoing participation in the TRACECA framework.

The Commission has started streamlining the various transport cooperation efforts. It has launched exploratory talks with the countries of the region about the extension of the Trans-European networks. This involves the possibility of preparing the TRACECA structures to serve as institutions of the South-Eastern axis. Of the five axes, the TRACECA corridor, along the South Eastern axis, is currently the only one where cooperation is formally organised through a MLA and an IGC, comprising the highest governmental authorities or their authorised representatives with responsibility for Transport matters and with a Permanent Secretariat. Consideration is now being given to whether the TRACECA structures can be used for coordination tasks along the axis and whether this model represents the appropriate structure to support the other axes. In this context, the EC also maintains that the institutional and policy dimensions of TRACECA need to be strengthened, in particular to address corridor development and overall policy development as covered under the Baku process, to support the extension of the Trans-European Transport Axes and to fully achieve the goals set out in the IGC TRACECA Long-Term Strategy to 2015. Together with the TRACECA countries, the Commission is preparing a Ministerial Conference (10th Anniversary of the TRACECA MLA) for the end of 2008 with the objective of enhancing TRACECA's output, in proportion to its new role.

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TRACECA IGC Long Term Strategy to 2015 and related Action Plans

In May 2006, the 5th Annual meeting of the IGC TRACECA and the 2nd Baku Initiative Ministerial Conference on Transport cooperation were held back to Bulgaria. During the IGC TRACECA meeting, member states officially approved the Long Term Strategy to 2015 for the TRACECA corridor.

As recognised at the Baku Ministerial Conference and laid down in the TRACECA long term strategy paper, the continued development of the TRACECA corridor region, economically, politically and for transport and infrastructure investment, requires the acceleration of regulatory reforms in the transport sector, and the consolidation at the institutional level of changes effected at the level of specific organisations through largely successful technical assistance projects implemented over the last 15 years. This is also the approach favoured by the European Neighbourhood Policy (ENP) launched in 2002 that currently guides the bilateral relations between the European Union and its neighbouring countries in the South East.

In recognition of this, in April 2007, the PS of IGC TRACECA agreed to set out the activities to be implemented by the TRACECA member countries in the short, medium and long term towards the fulfilment of the TRACECA Strategy Goals in a series of Action Plans. The first Action Plan covering 2007-2009 has been approved and is now subject to implementation. The tasks of the Action Plan 2007-2009 are required to be carried out by the MLA parties, with technical support and assistance provided in the framework of TRACECA projects financed by the EC. The PS is in charge of monitoring and evaluating the implementation of the proposed activities.

The TRACECA Strategy builds around six pillars with the end objective of delivering a sustainable, efficient and integrated multi-modal transport system at both the EU-TRACECA and TRACECA-TRACECA levels. The six pillars can be summarised as:

- **Strengthening and Modernising the Institutional Dimensions of Transport:** This is aimed at ensuring the existence of strong, competent and well designed institutions in the TRACECA member countries that can guide, support and nurture the future progress and development of the regional transport system. The successful implementation of this pillar constitutes a prerequisite for achieving the other pillars.
- **Integration and Cohesion of Infrastructure Networks:** this is aimed at putting in place a modern, compatible and interoperable physical infrastructure network that is well connected across the different transport modes and across the various TRACECA countries, and critically, to support links with the Trans-European transport network.
- **Sound Multimodal Freight Transport Chain:** this is aimed at ensuring the smooth and uninterrupted flow of trade for all types of freight across different modes of transport and across different countries. Given the complexity of multi-modal chains, it is necessary to design and implement a number of instruments with maritime transportation forming the nucleus of this pillar.
- **Exploiting the full potential of Air Transport and increasing Air Passenger Traffic:** this is aimed at enhancing the movement of passengers between the EU and TRACECA countries, and therefore focuses on air transport as the predominant type of passenger travel in the region.
- **Making Transport Safer, Secure and Sustainable:** this is aimed at ensuring that the regional transport system has both social and environmental faces and that it actively promotes the safety, security and protection of users, property, general public and environment that might be affected by this system.

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- **Secure Funding:** this is aimed at mobilising different sources of financing to ensure that sustainable and sufficient funds will be available to successfully initiate and complete the investments that are required in regional transport infrastructure and other projects.

The strategic framework provides direction and guidance to assist in turning around the TRACECA regional transport system from a fragmented position to a state of integration. The strategy is prioritised into short, medium and long term components, and where the priority in the short term is to be given to Securing Funding, Making Transport Safer, Secure and Sustainable and Institutional and Regulatory and Legal Strengthening.

1.4. Current state of affairs in the relevant sector

Current status and challenges

The importance of enhanced transport dialogue and networks interoperability is essential for enhancing regional cooperation in the transport sector. This will help to contribute to sustainable economic and social development as well as contributing to stability and prosperity in the CIS and Black Sea regions. Inter-regional and regional transport integration is a key for successfully meeting the new challenges faced by the transport sector stakeholders in the region and to facilitate long-term trade and transport between the EU and partner countries.

The **challenges** in the transport sector to achieve the goals set out in the IGC Long Term Strategy vary from country to country. However, certain common obstacles and problem areas for intra-regional and inter-regional transport and transit can be highlighted:

1. **Traffic Forecasting.** International traffic is still hampered by several transport bottlenecks in critical parts of the infrastructure of the TRACECA/NIS international corridor. Arising from previous EC Technical assistance projects and investigations, certain bottlenecks for major traffic flows, commodities and transportation have been identified. A regional planning and performance measurement tool for trade and transport forecasting is being developed for use in investment planning and project identification. This is being developed by the current TRACECA Technical Assistance Project "Analysis of Traffic Flows for TRACECA Countries and Interregional Transport Dialogue between EU and NIS" (The Traffic Flows Project). Furthermore, a system for the regular updating of traffic forecasts also needs to be deployed to assist in determining investment needs and priorities.
2. **Legal and regulatory re-alignment.** The limited co-ordinated development of regulatory and legal systems by TRACECA member countries to enable the development of an effective cross-border transport network. As part of the IGC Long Term Strategy, TRACECA member countries have agreed to gradually harmonise their legal and regulatory frameworks across the transport sectors in accordance with International and European standards.
3. **Safety, Security and Transport Efficiency.** Relatively low levels of experience concerning best practices for safe, secure and efficient transport and transit operations and communications for all modes of transport compliant with current EU-standards. Again, this issue is addressed as part of the IGC Long Term Strategy.
4. **Ongoing demand for Technical Assistance.** The existence of a knowledge gap in modern tools of transport and project planning and monitoring. Knowledge of PPP and private sector financing of infrastructure is relatively low in most countries. Former TRACECA programmes and projects have addressed those know-how gaps by institutional strengthening and capacity building in various fields of international transport such as multi-modal transport, legislation, harmonization of tariffs, and simplification of transit. However further support is required and which is supported by technical assistance programme from the EU and other international agencies.

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5. **National versus regional transport priorities.** TRACECA is focused on identification of regional or cross border infrastructure and transport projects rather than purely national initiatives. The challenge lies in proper identification of cross border projects sponsored by two or more TRACECA member countries which can be justified technically, economically and financially and open to financing support from IFIs. In this regard, all IFIs working in the region are openly supportive of backing regional projects, but coordination efforts are necessary to identify and promote true regional or cross border projects in practice.

The TRACECA Network

The TRACECA corridor comprises a complex mix of sub-regions and countries at different stages of economic transition and with different and often competing transport priorities in the corridor reflecting national needs. A TRACECA currently map exists which sets out defined TRACECA routes for Road, Rail, Maritime and TRACECA ports (including designated ports in relation to Motorways of the Sea) underpinning the East-West corridor concept. An updated map is being developed by the Permanent Secretariat for publication, reflecting new routes and linkages.

TRACECA Traffic Forecasting and Analysis

Under the Tacis project "Analysis of traffic flows", a major work component is focused on modelling the TRACECA trade and traffic routes for the purpose of identifying constraints and bottlenecks in the system which impede traffic flows thus making TRACECA routes less competitive and attractive than alternative routes. Secondly, to provide traffic data and traffic forecasts for investment planning and project identification purposes. Critically, movement of transport from East to West involves transshipment across the Caspian and Black Seas which add to time and costs making the TRACECA corridor route less competitive. Constraints which exist cover loading and unloading, quality of logistics and port facilities and high tariff rates for sea shipment charges. The analysis of such issues and identification of project initiatives which are regional or cross border in nature is a priority of the current Traffic Flows project and follow-up coordination projects .

Regional Economies

Since 2000, all TRACECA countries have experienced good rates of economic growth in GDP terms and which is expected to continue and to be sustained. In terms of traffic flows, there has been a steep rise in both oil exports and non-oil products to the EU from the oil producing countries of **Kazakhstan, Azerbaijan, Turkmenistan and the Caspian Sea basin**. Pipelines carry the majority of oil and will continue to do so in the future. However the TRACECA corridor plays an important role for the shipment westwards of petroleum products for producers without access to major pipelines or which may provide an alternative in the case of pipeline constraints. However to achieve an increase in oil related traffic requires considerable investment in port facilities, rail infrastructure, rolling stock, linked with improved processes for customs and border controls linked and with new measures such as the availability and use of throughput contracts.

In the last few years, **the South Caucasus countries of Azerbaijan, Armenia and Georgia** have witnessed a steep rise in non-oil exports to the EU countries. Azerbaijan in particular has seen considerable expansion of its trade routes, in particular of heavy freight to Russia, Tajikistan and Georgia while exports to the EU countries have increased significantly, particularly in higher value traffic. **Georgia** has the advantage of access to the Black Sea and enjoys more trade routes. The period 2002-2005 has seen a major expansion of trade and traffic with the EU countries, Turkey, Turkmenistan and with Azerbaijan. New trade routes have also been developed across the Black Sea to Romania and Bulgaria and eastwards to China and Korea. **Armenia's** trade is constrained by relatively high transport costs due its geographical position, particularly for heavy freight. However trade with Georgia for onward transport has increased significantly as has trade with EU countries for higher value goods.

The South Caucasus region has great potential for rapid growth in trade and transport and so support the objectives set out for the TRACECA corridor. Trade with Russia has expanded

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significantly and will continue to do so given Russia's own impressive GDP economic growth. Overall, trade between TRACECA and other regions is becoming more diversified with expansion westwards with Europe and eastwards to Asia.

Constraints to trade flows remain, and have been identified as higher transport unit costs, cumbersome border and customs procedures and competing routes, particularly the North-South axis involving Russia. The aim, supported by TRACECA, is to remove and/or minimise such constraints by harmonisation of customs regulations, as far as practical by adopting international norms, dealing with border issues combined with the upgrading of technical infrastructure.

Central Asian Republics

For Europe, trade with Central Asia cannot easily develop without adequate transport and transshipment facilities combined with high service levels. The EU is the leading trading partner for Kazakhstan, accounting for one third of its external trade, and the third largest for Turkmenistan. For the other three Central Asian Republics (CARs), between 10% and 30% of their external trade is currently conducted with the EU.

Of high priority for TRACECA is transport facilitation for the landlocked countries of the Central Asia region, Tajikistan, the Kyrgyz Republic and Uzbekistan, a prerequisite for raising living standards. All three countries depend on land transport in contrast to Kazakhstan and Turkmenistan which have direct access to the Caspian Sea, and hence an alternative option to use maritime transport modes to reach the South Caucasus and Iran. The landlocked countries face unique challenges related to their lack of direct access to the sea. This issue has been acknowledged by the international community, for example, in April 2007 by the OSCE Secretariat, which stressed that addressing their needs requires a sustained co-operation and effort over the longer term.

The Tacis Technical Assistance Project for the Development of Coordinated Transport Policies for the Central Asian Republics of Kazakhstan, Tajikistan, Kyrgyz Republic, Uzbekistan and Turkmenistan is currently in progress. The specific objective of the project is the development of coordinated transport policies for the CAR's with the aim of enhanced regional cooperation in all forms of transport, particularly in road and rail and in multimodal operations. For all CARs, an efficient link up to the EU TEN-T corridors and the TRACECA network is viewed as critical for sustained economic growth within the region, for social and economic cohesion and to enhance the regions inherent advantage as a natural transit area.

It should also be noted that in June 2007 in Luxembourg, EU Foreign Ministers gave their approval to the first-ever strategy for co-operation with Central Asia. Significantly the area provides for large reserves of oil and gas which represent an important driver for economic trade from Central Asia into EU countries and for trade with EU countries to Central Asia. Finally note should be made in 2005, Afghanistan and Iran became new members of the TRACECA programme, the latter opening up interesting potential for door-to-door road deliveries from Europe to Central Asia without the need to navigate the Caspian Sea.

1.5. Related programmes and other donor activities

European Commission

TRACECA commenced as an EU funded technical assistance programme in 1993. Since then, 62 technical assistance projects worth 105 million euros and 14 investment projects worth 52 million euros have been financed through the EU Tacis programme and Central Asia programme. Since 2004, TA projects have focused on transport safety and security, harmonisation initiatives, trade facilitation and institutional support including training. Recent investment projects include pre-feasibility studies related to port development, reconstruction of roads, railway improvements and support to multimodal transport.

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Critically, TRACECA has acted as a catalyst for larger scale investments. The EU and TRACECA are therefore committed to working jointly with IFIs and other potential investors to identify and fund large scale infrastructure and transport projects, particularly of a regional or cross border nature. The impact for the region has been tangible, as EU commitment has provided high visibility together with direct support which has facilitated significant investments by IFIs, including EBRD and The World Bank.

The EC is committed to seeking ways to continually reinforce cooperation with IFIs and other providers of finance. To date, TRACECA has favoured sectoral reforms which then underpin development bank loans. In this way, TRACECA assists in facilitating loan agreements between governments and development banks. It is therefore high priority for the EU to achieve complementary of actions with IFIs and to ensure such links are sustained.

Assistance in coordination with investors and IFIs is provided through TRACECA coordination projects. In this context, the current "Traffic Flows" project is organising the first TRACECA Investors' Forum to be organised in Baku at the end of 2008. Such initiatives should be replicated in the coming years in order to jointly identify, prepare and implement sustainable transport infrastructure projects along the corridor.

Reference should be made to the EU's Neighbourhood Policy Initiative (ENPI). It is a framework of cooperation established between the EU, EBRD and the EIB. The three institutions have signed a MoU to facilitate cooperation in Eastern Europe, South Caucasus, Russia and Central Asia. ENPI has as priorities for 2007-2010:

- Linkages with the Trans-European networks and Pan European Corridors;
- Convergence and harmonisation in legal and regulatory frameworks with international norms;
- Improvement of aviation safety and security, maritime safety and air traffic management;
- Deployment of the "Motorways of the Sea" concept.

Within the framework of establishing ENPI, the EU has set up the Neighbourhood Investment Fund (NIF) which will operate in the nature of a Trust Fund to which EU member states will be able to contribute. The NIF is intended to provide grant support for lending operations by EBRD and EIB and the bilateral or multilateral development finance institutions of the member-states that have contributed to the fund. Lending and use of the NIF will focus on the priorities stemming from the ENP Action Plans and which includes Transport. Priority will be given to funding of projects of common interest, such as the priority trans-national axes to extend the EU TENs transport corridors to neighbouring countries.

International Financial Institutions

There are a number of IFIs and other agencies working in the TRACECA region. An overview is provided below of the main directions of their current projects and priorities.

EBRD

The EBRD has confirmed its intention to continue to work closely with the EU on the development of the Trans-European network corridors, allied with regional initiatives including TRACECA. EBRD also works in close cooperation with other IFIs including the EIB, the World Bank Group and Regional Development Banks in supporting major infrastructure and transport projects. EBRD recognises though that the TRACECA member countries are all at different stages of economic transition and which therefore requires varying solutions depending on individual country needs. EBRD loans in support of transport related projects in the corridor amounts to around Euro 450 million. However, many of the EBRD supported projects may be classified as national in nature, rather than regional or cross border which is one of the objectives of TRACECA and the EC.

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EBRD has a diverse range of products which can be tailored to suit the needs of a transition country. Sovereign lending is aimed at providing financing to States who remain the main provider of transport infrastructure where there are limited opportunities for the private sector to invest in and where the current commercial risk to return ratio is not attractive. EBRD anticipate that sovereign lending to the TRACECA countries will continue to represent the largest part of the Banks transport lending in both volume and value terms. Such lending will frequently be undertaken in conjunction with other IFIs whereby the bank aims to achieve additionality and there is the increased likelihood of achieving the desired transition impact by the presence of a number of multilateral lenders connected with a major infrastructure project. Such transactions to support investment infrastructure are expected to be mainly in early or intermediate transition countries, which includes the majority of the TRACECA countries.

EBRD is also interested in identifying public sector non-sovereign transport projects, for example in state organisations which have been subject to commercialisation, such as a State Rail Company. In this case, financing may be considered without the need for a state guarantee.

For TRACECA countries, EBRD believes that the majority of funding for transport infrastructure and funding is likely to be provided to the State sector. However, the introduction of PPP into many of EBRD's countries of operations will see an increase in private sector opportunities to support investment into public infrastructure. Opportunities for PPP will occur in countries which exhibit the following characteristics:

- Political risk acceptable to investors in infrastructure;
- Adequate legal structure;
- Transparent bidding procedures;
- Adequate public sector systems and resources.

For EBRD, the countries of Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan are identified as early and intermediate transition countries. Accordingly it is likely that most transport transactions in these countries will be based on sovereign lending principles. But viable public-private sector transactions will not be excluded as evidenced by EBRD's support for the private sector oil products terminal at the port of Poti, Georgia.

The other countries of TRACECA, including Bulgaria, Romania, Ukraine and Kazakhstan are classified as intermediate transition countries. EBRD will continue to undertake sovereign transaction on a selective basis together with certain public sector non-sovereign transactions. However EBRD anticipates private sector interest and investment to rise gradually although not significantly in the direct provision of infrastructure.

In Kazakhstan EBRD has financed projects in all the main transport sub-sectors, in particular in rail and roads. The bank expects to remain actively involved in the aviation and airports and ports and shipping sub-sectors. Significant transport investment is also needed to support the development of the country's oil resources in the Caspian basin with port related upgrades.

Within the South Caucasus region, EBRD has and is currently financing a number of infrastructure and specific transport projects. In Armenia, EBRD is providing finance to the Aviation Sector (air cargo). In Azerbaijan, financing support has been provided to the state railway company and the Baku-Samur road. In Georgia, financing has been provided to the aviation sector (air cargo), rail and port facilities.

In the private sector, a key opportunity will be to continue to develop projects with a regional focus and to enhance this approach by working with the EU on regional initiatives, of which TRACECA is an important institution. Co-financing with other IFI's will also be a priority for EBRD. In Central Asia and the southern Caucasus, the Bank will continue to identify transport projects in the road sector to be financed with the World Bank and the Asian Development Bank. EBRD also envisages the main investment opportunities to be in the EU countries of Bulgaria and Rumania which are also seen as prospective countries for PPP structures.

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European Investment Bank

Until recently, EIB's lending mandate did not extend to all TRACECA member countries. While this remains true, EIB has been authorised by the EU Council in the context of its new 2007-2013 external lending mandate to start operations, *inter alia*, in the Southern Caucasus where framework agreements will be entered into with Georgia, Armenia and Azerbaijan. The mandate for 2007-2013 includes 3.7 billion euro for infrastructure investments in Eastern Europe (Ukraine, Moldova and Belarus), Russia and the Southern Caucasus, including in the transport sector. As noted above, EIB's operations in these regions will be carried out jointly with EBRD and the EU and where other IFIs can be expected to participate in co-financing.

The World Bank Group

The World Bank Group is very active in the TRACECA corridor, facilitating policy reform, institutional strengthening and making direct investments in infrastructure and transport projects. As with other IFIs, the bank is committed to working with and in coordinating its transport investment activities with other institutions, including the EC to support the promotion of the TRACECA corridor.

Transport development for the South Caucasus region is the centre of considerable support and investment by the World Bank, in particular aimed at promoting and strengthening the East-West corridor concept.

In **Armenia**, as a land locked country, road transport supports 85% of all passenger traffic and over half of all freight. The closed border with Turkey and Azerbaijan adds complexity to the situation, compounded by poor state of infrastructure resulting in high transport and logistics costs. There is therefore a need for rehabilitation of the road networks for both main and secondary roads allied with increasing road safety. The bank is currently leading a major Traffic Management and Safety project. In the Rail Sector, Armenia has one international rail connection through Georgia which supports over 70% of Armenian foreign trade. Urgent investment needs include infrastructure repairs and investments in rolling stock. The Government of Armenia is also considering to concession both rail infrastructure and operations given the high levels of public subsidy given to the railways in its current operating form.

In **Azerbaijan**, Roads account for 78% of passenger and 23% of freight traffic. The Bank anticipates a significant increase in transit freight for non-oil shipments, but much of the road network is in poor condition. Accordingly the Government has adopted a very ambitious road modernisation programme to upgrade both the East West and North South corridors. Such programmes need to run in parallel with other reforms, including the need for a new modern road law. In support of the road modernisation programme, the bank has three major projects supporting the East-West highway from Baku to Georgia, Transit and road safety improvements for the East-West and North-South corridors, and an upgrade of other major and minor roads combined with capacity building for the Roads Administration.

In the rail sector, a significant rise in freight transport is placing pressure on the network and which is facing increased competition from road freight for local freight and pipelines for oil transit. However, the country can anticipate a significant increase in demand for oil transport by rail and hence must invest to be able to meet this market need. A project is in preparation by the bank to support rail trade and transport facilitation covering rehabilitation of the East-West main line, investment in new locomotives and institutional strengthening.

For Maritime and Ports, Baku International Sea port dominates the region. The port has a major oil terminal and handles the shipping of general freight. There are also two other oil terminals at Dubendi and Sangachal. The bank consider that there are many opportunities to upgrade the facilities combined with institutional reform to improve the efficiency of the the country's port operations. In particular, a lack of transparency in maritime tariffs and limited competition results in relatively high shipping costs reducing the competitiveness of the Caspian route.

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In general, the level of transit tariffs and absence of competition on shipping and port activities is regarded as a major constraint for increasing the capacity and throughput of traffic in the TRACECA corridor.

In **Georgia**, Roads support some 68% of passenger and 58% of freight traffic and where the road network is in need of significant rehabilitation. The bank is supporting two major road improvement projects covering East-West routes, from the Azeri border to the Black Sea Ports of Georgia. The objectives of the projects are for reduction of transport and transit costs and ease of transit and safety. The road programme is combined with institutional strengthening of the Road Administration.

In the Rail sector, Georgian Railways is fundamental to the shipment of international oil and oil products from Azerbaijan to the Black sea ports. The bank projects that freight transport will double in the period to 2015, mostly due to an increase in freight of oil and oil products. This demand is driving the need for investment in infrastructure, rolling stock and in parallel with rail restructuring. The bank is supporting aspects of this railway restructuring.

Georgian Maritime and Port activities are critical for the TRACECA corridor, with the two major ports of Poti and Batumi in the process of being fully concessioned. Another port, Kulevi, is under construction and which is designed to handle larger tankers than Poti and Batumi. The bank believes that the rapid changes taking place in the ports of Georgia, combined with regulatory reforms, has the potential to provide the market with the required capacity and service quality levels demanded by the international market. However, problems remain to this efficient functioning including inefficiencies for border crossing leading to port delays.

In addition to the South Caucasus region, The World Bank is supporting many other transport initiatives in TRACECA. In Kazakhstan, the bank has a number of projects supporting road restructuring and highway rehabilitation. The bank is also supporting Bulgaria and Romania in ongoing transport restructuring including road rehabilitation. In Ukraine, project preparation is in hand to support railway and port modernisation.

In **Ukraine**, the World Bank is also carrying out a study "Trade and Transport Facilitation Diagnostics".

Asian Development Bank

ADB has as its members all TRACECA countries excluding Romania, Bulgaria, Ukraine and Moldova. Therefore ADB has been actively supporting the Central Asian States for many years, and from 2007 will give greater priority to the South Caucasus countries of Azerbaijan, Armenia and Georgia. Specifically, ADB activities in these countries include:

- Azerbaijan: Financing facility for improving the road network (national and local roads) and for cross border movement with Georgia and capacity building for road network management. ADB's technical assistance projects are aimed at improvement projects for general transport sector development.
- Armenia: ADB is currently preparing a country strategy for Armenia, and with a focus on rural and private sector development. In addition to develop transport infrastructure and Institutional capacity building.
- Georgia: ADB is preparing a Economic report and interim operational strategy. As with Georgia, the focus will be on transport infrastructure and Institutional capacity building.

Other IFIs involved in the TRACECA region include **KfW and JBIC** although other institutions including USAID and UN remain very active. **KfW** supports selective transport projects in Europe, currently in Turkey (Bridge and Rail Transport) and in Romania and Bulgaria (Danube bridge).

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Other countries of interest at this stage are Azerbaijan. KfW is looking to support transport projects in the context of major EC programmes and initiatives, in the framework of energy efficiency and in regions and countries with proven reform activities and results.

The **Japan Bank for International Cooperation (JBIC)** has been active in the region, mostly in Central Asian States and in conjunction with ADB. JBIC is currently involved in Armenia (Rural road rehabilitation) under a co-financing arrangement with ADB and in Georgia (Corridor rehabilitation project) where JBIC is in collaboration with the World Bank. JBIC and ADB have also signed a memorandum of understanding on Enhanced Sustainable Development in Asia (ESDA) which envisages an enhanced co-financing framework covering the period 2007-2011.

A number of **recent TRACECA projects** are directly related to this coordination project. In particular, the current project is intended to build upon the results and findings of the below listed EU funded regional projects which have similar aims and objectives:

- "Analysis and Forecasting of Traffic Flows for the TRACECA Countries and Interregional Transport Integration", including organisation of the Transport Dialogue between EU and NIS in the framework of the new European Neighbourhood Policy
- "Development of Co-ordinated National Transport Policies" Republic of Kazakhstan, Republic of Tajikistan, Kyrgyz Republic, Republic of Uzbekistan, Republic of Turkmenistan

As well as with TACIS projects implemented at national level, such as:

- "Support to the integration of Ukraine in the Trans-European Network TEN-T", issuing recommendations for the Motorways of the Sea concept, assessing the current port infrastructure and carrying out an assessment related to their integration into multimodal TEN-T, establishing priorities for container terminals and logistic centres in the ports, etc.

Also relevant projects implemented under Cross Border Cooperation programme, such as:

- "Integration of Transport Networks and Cross Border Points", which could be implemented in Ukraine, Belarus and Moldova, it will be focused on the actual and future transit needs, transport capacities, border crossing capacities, and support the implementation of the agreed priorities. The project is expected to start in mid-December 2008.

Development of transport capacity is also highly dependent on investment. For this, it is necessary to secure the coordination and joint working of the many International Financial Institutions working in the region: European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), World Bank (WB), Black Sea Trade and Development Bank (BSTDB), Asian Development Bank (ADB) and others. Effective and real coordination between TRACECA projects and the lending strategies of IFIs for joint project sponsoring are essential elements of the activities of the contractor for this project.

2. CONTRACT OBJECTIVES & EXPECTED RESULTS

2.1. Overall objectives

The overall objective of TRACECA is to improve the transport links of the EU Trans European Networks with the neighbouring countries (Caucasus, including Armenia, Azerbaijan, Ukraine and Georgia) and the Central Asian countries, thus facilitating trade and enabling socio-economic and environment development in the region. Additionally the projects purpose is to enhance regional transport dialogue and transport inter-modality between the EU and these countries through enhanced co-ordination and working with IFIs, closer collaboration and participation of IFIs and, where feasible, the private sector in TRACECA transport projects.

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2.2. Specific objectives

The specific objectives of this project are as follows:

1. Strengthen the political and transport dialogue mechanisms between the EC, the TRACECA beneficiary countries, other project stakeholders and IFIs.
2. Support the implementation of the IGC Long Term Strategy to 2015 and related Action Plans, through assistance to the TRACECA Permanent Secretariat and member countries for development of the transport corridor and links to the EU Trans European Networks.
3. Contribute to the development and agreement of TRACECA regional investment plans for transport infrastructure in support of project identification, project definition and appraisal leading to mobilisation of funding and project implementation.
4. Achieve effective and sustainable coordination with IFIs for identification of “bankable TRACECA originated projects” for funding by IFIs and with other financial institutions including the promotion of PPP.
5. Support the implementation of transport investments' projects by providing studies, developing business and master plans, analysing financial and technical feasibility and promoting public-private partnerships.
6. Achieve effective communication and dissemination of activities and results for the TRACECA programme.

2.3. Results to be achieved by the Consultant

In respect of Objectives 1 and 2 for strengthening political and transport dialogue mechanisms and for implementation of the IGC Long Term Strategy to 2015 (in relation to Work Component 1)

1. A coordinated strategy in place and working between countries to strengthen regional transport cooperation, together with demonstrated legal, institutional and regulatory system transport re-alignment in the region.
2. Direct and targeted intervention to the Permanent Secretariat and member countries for fulfilment of specific actions required by the TRACECA Action Plan 2007-2009 and definition of input for subsequent Action Plan 2010-2012
3. Organise a minimum of two Regional transport and infrastructure Conferences at Ministerial level for promotion of the European Transport policy and to promote TRACECA transport and policy dialogue.
4. Demonstrated progress made aimed at ensuring the sustainability of TRACECA's transport and traffic database system for the collection, collation and processing of traffic data for traffic forecasting, analysis, investment planning and project identification.
5. Identification of specific objectives, targets and activities which require re-balancing within the TRACECA Long Term Strategy to 2015 and roll out of monitoring tool to assess progress on implementation of the long term strategy.
6. A delivered, high quality and successful training programme, including a “Train the Trainers”, programme consistent with the demands and needs of the TRACECA Permanent Secretariat and TRACECA member countries.

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7. Structured training programme customised and delivered to meet the specific needs of the PS of TRACECA to raise levels of expertise in the area of financing and best practices for promoting IFI and private sector investment in infrastructure and the transport sector. Gain maximum leverage from training offered by other TA projects.
8. Thematic working group structure established and working, producing focused and structured output in support of regional investment planning and definition of infrastructure and transport projects. A minimum of eight working groups to be convened during the course of the project.
9. Preparation of a “Financing and Investment Manual” for operational use and awareness training by the TRACECA Permanent Secretariat and for member countries.
10. Completion of a “readiness assessment” of TRACECA member countries for PPP arrangements in terms of an appropriate legal and regulatory framework and a road map for required legal and regulatory changes.
11. Raise awareness throughout TRACECA member countries of the role and relevance of PPP to transport and infrastructure related projects. Convene a minimum of one major and high profile regional conference focusing on PPP for investment in infrastructure and investment drawing upon Western European and emerging market experience.
12. An established “working community” in place comprising a TRACECA network and IFIs with dedicated coordinators, national and international banks and other financial institutions working in close consultation and co-operation on agreed investment and transport priorities for TRACECA member countries and extension of Trans European Networks to neighbouring countries.
13. Convene a minimum of two IFI regional coordination meetings.
14. Implementation of agreed changes to the governance and organisation structure of the Permanent Secretariat of TRACECA together with proposed amended funding mechanisms.

In respect of Objectives 3 and 4 aimed at transport investment planning, project identification, project appraisal, and IFI Coordination leading to “bankable TRACECA projects” (in relation to work Component 2).

15. TRACECA project pipeline database in place and working to permit screening, selection and evaluation of potential TRACECA projects.
16. Generation of a short list of between 6-8 infrastructure and transport projects which meet the criteria of a TRACECA regional project aimed at development of the corridor.
17. Completion of project pre-appraisals on the agreed short list of projects to ascertain cost benefit analysis, economic and financial case and indicative ranking of project short list.
18. Structured initial discussion with IFIs of the 6-8 shortlisted projects to ascertain level of interest to move forward with joint sponsorship and feasibility studies with a view to mobilisation of funding.
19. Identification and project definition of a minimum of two regional infrastructure and transport projects which lend themselves to Public Private Partnership structuring for assessment by the EC, TRACECA member countries and potential financial institutions.

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20. A documented methodology in place for use by the PS covering the project cycle for project identification and project definition.

In respect of Objectives 4 and 5 aimed at effective IFI coordination, identification of bankable TRACECA projects, implementation of transport projects and the promotion of PPP (in relation to work Component 3).

21. Following on from initial results of discussions with IFIs, secure acceptance with IFIs to undertake a minimum of two full Feasibility Studies on TRACECA originated projects within the project timescale.
22. Set up and complete a minimum of two feasibility studies jointly and with the sponsorship and backing of IFIs.
23. Secure a minimum of two bankable TRACECA originated projects with committed IFI investment funds and/or in conjunction with other financial institutions for co-financing arrangements.
24. Bring forward for debate and consideration by IFIs, TRACECA member countries, other financial institutions and private sector interest, a minimum of two identified TRACECA regional infrastructure projects for possible PPP structuring.
25. As required, provide practical support and technical advisory services for the proposed Business Advisory Council and build effective interfaces and working relationships with the IGC TRACECA and the Permanent Secretariat.
26. As required, provide practical support and technical advisory services for the set up of the proposed TRACECA Investment Fund and build effective interfaces and working relationships with the IGC TRACECA and the Permanent Secretariat.

In respect of Objective 5 for the effective communication and dissemination of the TRACECA programme and project work activities (in relation to Work Component 4).

27. TRACECA programme activities, materials, results and other information produced and are widely communicated and disseminated.

3. ASSUMPTIONS & RISKS

3.1. Assumptions underlying the project intervention

The continued strong political commitment and technical support to be provided by the Permanent Secretariat and the beneficiary countries is expected.

Partner governments and authorities should be ready to cooperate where necessary in the priority areas, take measures required in the terms of endorsement of adopted legal, technical and institutional reforms and adequate resource allocation.

Key personnel and counterpart staff will have to be appointed and made available in time and in the required extent and qualification to participate in the project activities. In particular the openness of partner countries to fully share trade and transport data.

Openness and willingness by IFIs to be fully cooperative in the desired coordination activities and for joint project preparation.

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Furthermore, assistance in provision of office space for primary and secondary Project Offices together with logistics support to be provided by TRACECA member countries.

3.2. Risks

3.2.1.1. Risks

The risks associated with achieving agreement on co-ordinated transport policies are:

- Possible changes in key stakeholder organisations of a member country.
- Entering into individual bi-lateral agreements and preferential treatments rather than creating agreements based on international standards. Standards adopted are frequently outdated and thereby additional costs are incurred.
- A desire by individual country to secure the highest returns for itself, rather than taking a regional view. The regular EWG meetings foreseen will help to overcome these difficulties and misconceptions.
- Weak legal implementation and control mechanisms in place.
- Possible closing of borders between certain countries. It is essential to maintain good communication between the transport key stakeholders of the neighbouring countries. Certain political disputes between countries will not totally prevent the transport specialists in those countries communicating and cooperating in full. Effective cooperation can be maintained utilising the current TRACECA mechanisms, including the Permanent Secretariat, and drawing upon the diplomatic abilities of the Team Leader and other members of the team.
- Access to cost tariffs and tariff setting procedures for road transport may not be readily forthcoming due to concerns over commercial secrets of transport operators.
- The benefits of free market entry for operators (including cross-border services) and fair competition on price and quality of service (subject to strict regulation on safety and environment) are still not fully appreciated - there is still a preference in some quarters for over-regulation, monopolistic and state run operations.

4. SCOPE OF THE WORK

4.1. General

4.1.1. Project description

Regional Transport development and integration. The project objectives and activities are aims at supporting the priority action areas set out in the TRACECA Long Term strategy adopted by the IGC in May 2006. This strategic framework comprises a number of priority sectors aimed at delivering by 2015 a sustainable, efficient and integrated multi-modal transport system at both the EU-TRACECA and TRACECA-TRACECA levels. Implementation of the strategy implies the development of efficient operational structures for the coordination of TRACECA countries activities. In this context, ongoing support to the TRACECA Permanent Secretariat's important role in promoting regional dialogue and in coordinating regional projects remains crucial. Additionally, the current project must provide support to improve the transport links of the EU Trans-European Network (TENs) with the neighbouring countries and the Central Asian countries, thus contributing to transport and trade facilitation In the context of the European Neighbourhood Policy (ENP), the importance of strengthening regional transport cooperation has previously been emphasised.

IGC Long Term Strategy. The Consultant is required to gain a full understanding of the IGC Long Term Strategy and the performance to date against the agreed Action Plan for 2007-2009. Further

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to provide input to the preparation of the Action Plan for 2010-2012. The IGC strategy builds around six pillars, classified into short, medium and long term. The **Short Term** covers: Attracting Funding, Developing Safe, Secure and Sustainable Modes of Transport, and Institutional, Regulatory and Legal strengthening. The **Medium term** covers: Infrastructure Integration and Cohesion and Creating an effective multi-modal transport network. The **Long Term** covers: Realising the full potential of Air Travel. The overriding objective of the strategy is aimed at bringing about realignment of the transport legislation in the TRACECA countries towards international transport conventions and agreements, and thus closer to EU transport legislation.

EU Technical assistance. Assistance for the implementation of the Action Plan for 2007-2009 and for subsequent action plans is provided through the Permanent Secretariat and in the framework of ongoing EC technical assistance projects including this current project. There are also a number of parallel EC Technical assistance projects which support the delivery of the current Action Plan and for future Action Plans. The Contractor is required to gain an appreciation of the objectives and progress of these complementary projects to ensure maximum leverage from integrating and coordinating with other TA projects.

EU TRACECA Traffic Flows Project. Of particular relevance to this current TOR and project, is the current TACIS project on "Analysis of Traffic Flows for TRACECA countries and Interregional Transport Dialogue between EU and NIS" which will operate through to June 2009. Within the required work components, there are a number of overlapping and complementary activities which the Contractor will need to follow up and leverage from to ensure sustainability and to meet the objectives of this current project. The Traffic Flows project has two components. The first addresses the need to strengthen the ability of TRACECA to produce traffic forecasting data for transport investment planning and project identification. This will be achieved by upgrading the database systems and planning models together with training of people and improved processes for data collection, collation and analysis. The second component embraces a number of activities covering support to the TRACECA PS in institutional strengthening, assistance in implementation of the Action Plan 2007-2009, facilitation of thematic working groups, project identification, ongoing coordination with IFIs and development of PPP initiatives.

Ongoing support to the Permanent Secretariat. Institutional strengthening of the TRACECA Governance structure is a key objective of this project. Firstly, the PS and member countries are required to implement the agreed IGC Long Term strategy, including the critical objective of seeking convergence in transport legal and regulatory frameworks in accordance with International and/or European conventions. Secondly, in the context of the European Neighbourhood Policy (ENP), the EC recognises that the institutional and policy dimensions of TRACECA need to be strengthened and modernised to address both corridor development and policy matters. In support of the ENP in relation to transport, the EC has identified five major trans-national transport axes. Of the five axes, the TRACECA corridor is the only one where cooperation is organised through a MLA signed by the countries concerned. The TRACECA framework may therefore offer a suitable basis on which to build for the ENP, given its strong legal basis, the set of institutions and the focus of the strategy on the implementation of the corridor. To achieve this requires ongoing support from the EC to TRACECA through this current project in conjunction with other technical assistance initiatives.

Thematic Working Groups. Much of the transport dialogue between TRACECA member countries has been achieved through the mechanism of expert working groups. Initially four expert groups were set up covering Civil Aviation, Security in all Modes of Transport, Road and Rail Transport and Transport Infrastructure. A fifth working group on Maritime Transport has since been established and a possible 6th group may address carriage of dangerous goods which is cross sectoral. Outputs from the working groups are intended to be used to identify changes required in legal and regulatory frameworks of member countries, for input into defining national transport and investment plans, and in the identification of potential regional projects. The performance of the working groups is considered to have been mixed due to a combination of factors. The current EU Tacis Traffic Flows project will facilitate up to eight expert working groups and consequently there will be another period to evaluate the effectiveness of the working groups. The objective of the Consultant under the current contract will be to assess the performance of the working groups in

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the past two years of the Traffic Flows project and to consider whether the current format remains valid or to modify the working group structure, which in this TOR are termed Thematic Working Groups. Further, for the Consultant to organise and facilitate a further set of Thematic Working Groups over the course of the project.

Project identification and appraisal. Project identification forms a major component of the current project. The current TACIS Traffic Flows will be required to evaluate and produce investment plans and to identify projects based on outputs from the transport planning and forecasting models. There will thus be an existing project pipeline and portfolio of TRACECA projects all at different stages of evaluation. The Consultant for this project will be required to carry on this process of project identification and evaluation, and to develop a short list of potential projects which meet pre-defined and agreed criteria, in particular projects of a regional nature, including cross border projects. This is a complex process given the number of countries involved in TRACECA and the difficulty in gaining consensus amongst member countries on regional versus national transport priorities. The overall aim is to identify and obtain funding and sponsorship for regional projects which contribute to the development of the corridor and act as drivers for infrastructure and transport investment.

Feasibility Studies. This current project has provision to undertake for a minimum of two Feasibility studies for agreed short listed projects. The mechanics of how the Feasibility Studies will be conducted will be subject to review between the Contractor and the EC project Manager. It is possible that the Feasibility Studies can be conducted by mobilising short term experts, or through a sub-contracting arrangement. In addition, depending on progress, the EU Neighbourhood Investment Fund might provide financing for the Feasibility Studies. In evaluating which projects are to be taken forward to feasibility study stage, the Consultant is required to consider the methodologies and practices used by the IFIs, such that the feasibility studies and project preparation are compliant with IFI standards, leading to increased probability of acceptance by IFIs and avoiding duplication of work. Timing is also of importance when conducting feasibility studies to minimise the risk of unnecessarily lengthy studies which may lead to lack of project interest and sponsorship by financial institutions. Therefore as far as possible, the Consultant needs to inject private sector disciplines into the project cycle.

IFI Coordination. A major objective for this project is ongoing coordination with IFIs for joint identification of "bankable projects" and for subsequent mobilisation of funds. Many IFIs operate in the TRACECA region and actively support and invest in infrastructure and transport related projects. TRACECA must be capable of origination of investment plans and projects which can be converted into "bankable projects" which meet its internal criteria of regional, integrated and sustainable. The aim is for regional or cross border projects to be originated by TRACECA, preferably jointly with IFIs in a structured manner which leads to increased probability of project conversion, project funding through to project launch. Based on past donor conferences and coordination meetings, there is no lack of intent or interest from IFIs working together with TRACECA. Therefore effective coordination with IFI's is an ongoing process with TRACECA and the EC leading ultimately to joint projects of a regional nature.

Public Private Partnerships. A specific objective of this project is to determine the extent to which Public Private Partnership structures provide a solution to funding transport infrastructure and transport related projects. The current TACIS Traffic Flows project has as one of its work components the requirement to promote PPP's and there exist other TRACECA TA projects which include a PPP component. It should be stressed that work undertaken on PPP should as far as possible be undertaken in consultation with these other TA projects.

Business Advisory Council ("BAC") and the TRACECA Investment Fund ("TIF"). Finally, the consultant should anticipate the possible establishment of two new institutions, a BAC and a TIF. Terms of reference for both are being developed as part of the current TACIS Traffic Flows project.

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4.1.2. Geographical area to be covered

The project area includes all TRACECA countries, and all countries of the “Baku Initiative”, including Russia, Turkmenistan and Belarus. Furthermore, links with TRACECA candidate and observer countries must be taken into account.

In addition the Contractor must take into account the objective for closer integration between Trans-European network (TEN-T) and TRACECA in terms of developing the Motorways of the Sea, the Central Axis and the South Eastern Axis.

4.1.3. Target groups

The project's main stakeholders will be the Ministries of Transport, responsible for the sustainable development of the transport policy and the transport infrastructure, and the investors and different stakeholders involved in the selected studies and projects. The overall beneficiaries of the project are the business community and the consumers of transported goods profiting through cheaper and faster production to market relations in the relevant areas. In addition, the public will benefit both directly and indirectly from an improved transport network that will provide improved accessibility, and social and economic development.

4.2. Specific activities

The activities to be undertaken by the Contractor are set out below under four components. The Contractor should note that while set out in separate components, the work activities are interrelated and should not be treated as stand alone activities. The four components are:

- Implementation support for the TRACECA Long Term Strategy and related Action Plans;
- Project identification and project definition;
- Mobilisation of funding;
- Communication and dissemination.

Component 1 Support for the implementation of the TRACECA Long Term Strategy and related Action Plans

Activities under this component are aimed at strengthening the capabilities for capacity building of the Permanent Secretariat in support of effective implementation of the TRACECA IGC Long-Term Strategy to 2015, the current Action Plan 2007-2009 and subsequent Action Plans. Specifically the Contractor must take into account the additional obligations of the Permanent Secretariat regarding its new coordination role for the South Eastern Corridor as part of the expansion of the Trans-European Transport Axes.

Objectives 1 and 2: Support for implementation of the TRACECA Long-Term Strategy and related Action Plans. Strengthening of the political and transport dialogue mechanisms between the EC, the TRACECA beneficiary countries and other stakeholders.

Work Activities:

- **Political and Transport Dialogue.** Assess, advise and make recommendations on the effectiveness of political coordination amongst TRACECA member countries, the EC and other stakeholders aimed at promoting regional transport dialogue. Consider how coordination and interface mechanisms between stakeholders can be improved aimed at enhancing transport policy development and to gain consensus on regional investment plans and transport projects.
- **Realignment of Transport legislation.** Undertake a review of the statutory, regulatory and legal frameworks of TRACECA member countries assessing the ability to deliver the programme of projects and ensuring closer integration between the Trans-European network (TEN-T) and TRACECA. Develop recommendations on the required changes, timing and work with the PS on implementation support.

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- **National Transport Policies.** Assess the extent to which tangible progress has been achieved on realignment of national transport policies in the area of legal and regulatory convergence and harmonisation with European standards. Compare the programme and progress made for the development of legal and regulatory convergence and harmonisation against European/International conventions. Identify risks to the realisation of convergence and harmonisation and make recommendations to support member countries to get back on track. This work activity should leverage off from previous and current TRACECA EC TA projects.
- **Action Plan 2007-2009.** Undertake a progress assessment with the Permanent Secretariat and National Secretaries on progress achieved to date against the Action Plan 2007-2009. Identify problem areas, constraints or bottlenecks to achievement of the Action Plan. Make recommendations in the nature of a remedial action plan on specific areas which have fallen behind schedule for follow up discussion with the PS and EC Project Managers.
- **Action Plan 2010-2012.** Provide input and technical support to the PS and other relevant parties in formulating the next Action Plan for 2010-2012.
- **Regional Ministerial Conferences.** Organise a minimum of 2 Regional Ministerial Conferences with the focus on policy dialogue including discussion of and convergence of national transport policies in support of meeting the required objectives and targets set out in the agreed TRACECA Long-Term Strategy and the Baku Transport Initiative.
- **TRACECA Transport Data Base and Data Collection:** Evaluate the approach taken to current data collection methods for populating TRACECA's transport data base. Determine the ongoing business case to retain local country experts for data collection and consider alternative options. Develop specific recommendations for discussions with the PS and EC project manager for the way forward to ensure the sustainability and relevance of the data base for traffic forecasting and analysis.
- **TRACECA Transport Data Base and Traffic Forecasting.** Secure an in-depth understanding of the software systems, processes and related inputs and outputs of TRACECA's transport data and forecasting system which is a pre-requisite for investment planning and project identification.
- **TRACECA Long Term Strategy.** By month 12 of the project, develop conclusions and associated recommendations on the extent to which TRACECA remains on track to achieve the agreed long term strategy. Identify areas which remain at risk and solutions to get back on track. The evaluation is to be undertaken by use of a methodology currently under development to monitor progress achieved against the strategy and where the PS is to play a leading role. Discuss the results and conclusions with the PS and EC Project Manager. Where required, formulate an appropriate action plan to assist the PS in taking corrective action.

Thematic Working Groups – Baku Initiative/TRACECA

- **Proceedings from previous working groups.** Assess the status and progress of the previous TRACECA regional thematic working groups. Follow up on agreed action points from those working groups to determine progress made and for the effective follow through of agreed actions and initiatives.
- **Thematic Working Groups.** Develop a programme to schedule and deliver a **minimum of eight** thematic working groups during the course of the project. The criteria for the thematic working groups to be carefully designed taking into account the results and conclusions from previous working groups as part of the EC's Trade Flows Project, and in full consultation with the PS and EC project Manager. Support the PS in organising and in

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facilitation of the working groups with the objective of achieving tangible results linked to achievement of Action Plans and the TRACECA Long Term strategy.

- **Thematic Working group outputs and follow through.** Further, facilitate the working groups to support political dialogue, exchange of information, for dissemination of EU transport policy and TEN-T initiatives, to draw out conclusions from previous TA projects for feeding technical programming for future TA and investment projects. Provide input for preparation of the Action Plan 2010-2012 and in support of realisation of the objectives of the six pillars of TRACECA's Long Term Strategy.

Developing best practices for Transport Infrastructure Investment

- **Current competencies.** Determine the current level of competencies and knowledge amongst the expert staff of the Permanent Secretariat of modern investment methodologies for transport infrastructure and transport projects to identify areas for ongoing training and technical support.
- **Training.** Design, develop and deliver a customised programme for the expert staff of the TRACECA Permanent Secretariat to raise levels of expertise of attributes of infrastructure investment, including PPP. To include, *inter alia*, project definition and design, project preparation and structuring, project analysis (economic, financial, technical, institutional, environment, social), sustainability, risks and mitigation, sources of finance. Combine with sector specific training where relevant.
- **Training Coordination.** In undertaking training related activities, the Contractor should assume a coordinating role taking into account other related TA projects which include training components and to utilise such training for PS staff to the maximum extent possible. The aim is to seek maximum leverage across all training programmes conducted by other TRACECA EC TA projects.
- **Leveraging from IFI methodologies.** Engage with IFI's operating in the TRACECA member countries to import IFI methodologies and know-how in relation to definition, design, preparation and appraisal of infrastructure and transport projects, investment structuring and the project life cycle leading to the creation of "bankable projects". Integrate such methodologies in training programmes and for the completion of a TRACECA Investment Manual.
- **Investment Manual.** By month 12 of the project, produce an "Investment Manual", setting out best practices for financing infrastructure and transport projects for use by PS and member country personnel and to be embedded in the PS's standard operational procedures, possibly web-enabled for easy staff access and use.
- **Public Private Partnerships.** Undertake a comparative analysis by TRACECA member country of the existing and proposed changes in the legal and regulatory framework to facilitate the operation of PPP structures. This work activity should be undertaken in consultation with other related TA projects which address PPP. The purpose is to gain an appreciation of the extent to which there is potential for PPP structures to support, and provide impetus for TRACECA regional investment projects and to ascertain relative country interest levels in PPP. A PPP unit could be set up within the Permanent Secretariat to provide advice for PPP development along the corridor.

IFI Coordination

- **The PS and IFI Coordination.** Make recommendations for how this critical activity can be strengthened to create an effective working interface at transport policy, investment and project levels to achieve investment leverage. Follow through with the work already performed to enhance IFI coordination as part of the EC Traffic Flows Project. Establish a lasting network of TRACECA contacts and dedicated IFI coordinators.

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- **IFI and Stakeholders working community.** Reinforce the existing IFI network and coordination mechanisms in conjunction with other stakeholders, including National, Regional and International Banks, Regional Investment Funds and other bodies.
- **IFI Coordination meetings.** Organise a minimum of two EC and TRACECA IFI coordination events.

Governance and Organisation – and with reference to the new coordination role of the Permanent Secretariat and the South Eastern Corridor for the expansion of the Trans-European Transport Axes.

- **Advising on and developing recommendations for change.** In conjunction with the PS, advise and make recommendations on areas for strengthening the capabilities of the PS, in terms of infrastructure, management and organisation and resource needs both financial and non-financial. The objective of these activities is to reinforce the PS capabilities to execute TRACECA's Long Term Strategy and related Action Plans and to fulfil the additional responsibilities for the PS in its coordination role for the South East transport corridor.
- **Implementation assistance.** Working jointly with the PS and the EC TRACECA Project Manager, provide assistance to the PS in implementing agreed changes and identify specific areas where the Contractor and EC is able to provide targeted technical assistance.
- **Personnel and resources.** Advise on initiatives to strengthen the existing establishment of the PS in terms of skill sets (technical, transport, functional etc) in the expectation that PS staff numbers will increase. Make recommendations on the changes required, including the case to add international transport expertise to the existing regional team.
- **Training.** In consultation with the PS, determine other specific training needs for the PS staff. Training needs are to be carefully assessed and targeted to the specific needs of the organisation. Such training is required to support planned growth in staff numbers and to aid in staff retention. Training needs of national secretariats and country related staff should be included but is expected to be of a limited volume. Develop and deliver the required training and, where feasible, utilise training delivery conducted by other TRACECA TA projects.

Component 2 Project Identification and Project Definition

Objectives 3 and 4: Contribute to the development and agreement of TRACECA regional investment plans for transport infrastructure in support of project identification, project definition and appraisal leading to mobilisation of funding and project implementation.

Achieve effective and sustainable coordination with IFIs for identification of “bankable TRACECA originated projects” for funding by IFIs and with other financial institutions including the promotion of PPP.

Work activities:

- **Methodology for project identification and screening:** Formulate a documented methodology for use by the PS to (1) maintain and update the project pipeline as a live portfolio and (2) for continuous project screening, selection and evaluation.
- **Project Pipeline Database.** Assist in identifying, defining and developing an initial long list of potential transport projects in line with the stated priorities identified under the Baku Transport initiative and the extension of the EU Trans-European Networks to neighbouring countries. Sources to be used for project identification to include the existing TRACECA portfolio and project pipeline, TRACECA country members, as output from thematic working groups, other forums and workshops and from projects already subjected to pre or

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full feasibility studies as part of the current EC Traffic Flows Project. The objective being to generate regional projects which contribute to the development of the TRACECA corridor including removal of identified bottlenecks. Further, to promote projects which contribute most to balanced sustainable development in terms of economic efficiency, enhancing environmental sustainability of the transport system and improving transport safety and security.

- **Project screening and filtering.** Devise a project selection strategy and process to assess potential high value and high impact regional projects. Apply the screening process to the list of potential projects to produce a prioritised project list according to specified criteria.
- **Pre-selection and project short listing.** In consultation with the TRACECA PS, project beneficiaries and the EC project manager, arrive at a consensus to reduce the long-list to a short-list of between 6-8 preferred projects and which merit a more detailed examination and appraisal.
- **Appraisal and evaluation of short listed projects.** For each short listed project, undertake appropriate socio-economic, technical and financial appraisals to create an outline project concept setting out for each project in further detail the investment needs, business case and economic rates of return.
- **Sounding out short listed projects with IFIs and other stakeholders.** Initiate dialogue with potential providers of funds for each short listed project based on existing knowledge of IFI priorities and via direct consultation with IFI's. In addition to IFI's, consult with all other identified regional, national and international banks and other potential stakeholders to gain support and sponsorship for individual short listed projects.
- **PPP and project identification:** Following on from work undertaken on Public Private Partnerships under Component 1, identify potential infrastructure and transport projects which may lend themselves to a PPP financing structure. Consider such projects at IFI coordination meetings and in conjunction with project beneficiaries and the EC project manager. Engage with potential interested state bodies and the private sector to formulate a strategy and joint agreement to move towards a full project appraisal. Identify and consult intensively with other related TA projects which include PPP work components.

Component 3 Mobilisation of Funding

Objective 4: Achieve effective and sustainable coordination with IFIs for identification of "bankable TRACECA originated projects" for funding by IFIs and with other financial institutions, including the promotion of PPP.

Work Activities:

- **IFI project sounding and screening:** Develop an approach to "pull through" TRACECA originated investment plans and transport projects for review and appraisal by IFIs at an early stage of the investment or project life cycle. Pilot the approach by subjecting a minimum of **six short listed** TRACECA transport projects to scrutiny and assessment by a minimum of **2 separate IFIs**. Identify relative weaknesses and strengths in the initial project assessment phase undertaken by the PS of TRACECA and seek to rectify in arriving at identification and appraisal of "bankable projects".
- **Feasibility study assessment:** For projects meeting IFI investment criteria, agree with the IFIs on the next steps in terms of project appraisal including the need for pre- or full feasibility studies according to the IFI methodology. Determine whether EC funding can be drawn from the EU's Neighbourhood Investment Fund (NIF) to finance such studies to foster joint working and cooperation between TRACECA and the IFI.

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- **Conduct Feasibility Studies:** Coordinate with IFIs on launching and undertaking **a minimum of two** feasibility studies on short listed projects and within the project timescale. Mobilise TRACECA and EC political and commercial support to capitalise on opportunities and overcome identified project constraints and risks, whether legal, regulatory, technical, economic political, or financial.
- **Identification of Project financing needs and sources:** For positive project outcomes based on the results of the feasibility studies, coordinate funding structures and sources with the lead IFI and identify and mobilise other funding organisations, EIB, EBRD, The World Bank and others and, where applicable, the EC's Neighbourhood Investment Fund. Draw upon other external providers of finance, such as national and international banking institutions, regional investment funds etc. to secure project financing with the overall aim of achieving **a minimum of two** "bankable TRACECA projects" with full and agreed IFI financing and sponsorship in place.
- **PPP and promotion of PPP projects:** Develop project concepts for **a minimum of two** infrastructure projects which lend themselves to a PPP arrangement. Consult with other related TA projects for PPP project identification. Actively market and promote the two short listed projects amongst interested private sector investors in conjunction with the public sector body of the respective country under the auspices of the TRACECA PS. Evaluate the business case and demand for establishing a TRACECA regional PPP centre of excellence modelled on other European initiatives.
- **Business Advisory Council:** Follow up on the status of the proposed Business Advisory Council aimed at promoting and expanding private sector investment into development of public infrastructure, including PPP. To the extent possible, determine how BAC can be integrated into support for transport projects and to mobilise private sector support and funding.
- **TRACECA Investment Fund:** Follow up on the status and progress made in establishing a planned Investment Fund. Based on the status and terms of reference for the fund, determine how the fund can be utilised in support of funding for TRACECA originated projects, including technical assistance funding, co-financing and direct project investment.

Component 4 Communication and Dissemination

Objective 4: Effective communication and dissemination of activities and results of the TRACECA programme.

Work Activities:

- **Communication and dissemination strategy.** Work with the EC, PS and TRACECA member countries to develop a communication strategy to effectively promote the benefits of TRACECA and associated initiatives both in the region, within the EU and to a wider world audience of stakeholders.
- **Coordination activities.** Set up coordination meetings between TRACECA PS, National Secretaries, EC TRACECA Project Manager, EC Delegations, National transport coordination units, project stakeholders and IFIs.
- **Production of TRACECA project materials and literature.** Update, produce and disseminate TRACECA marketing material, newsletters and brochures used to promote the TRACECA programme.
- **Events and TRACECA web-site.** Arrange and promote events to publicise the work and results undertaken by the current project (website, dedicated TRACECA conferences, press releases, press conferences etc).

Terms of reference

4.2 Project Management

4.2.1. Responsible body

The project will be managed by the EuropeAid Co-operation office. The Team Leader will be responsible for managing the contract.

4.2.2. Management structure

The project is to be managed via a **regional office in Baku**, which will serve as the main contact point for all project activities. This office will be staffed with the experts and adequate secretarial support.

In addition to the counterpart institutions, the Contractor will work closely with the national regulatory institutions and administrations, with the TRACECA Permanent Secretariat in Baku and its representatives in the beneficiary countries and with other relevant national authorities. The contractor will keep informed the relevant EC Delegations in Almaty, Kiev, Tbilisi and Baku. Moreover the TRACECA Secretariat and the TRACECA National Secretaries play an important coordination role and should liaise with the project beneficiaries and all the stakeholders at national level. National Secretaries shall also participate in regional working group meetings.

The Contractor should bear in mind the regional emphasis in planning his travels and staffing requirements and a draft schedule of visits shall accompany his proposal. It should be noticed that this schedule may need to be adjusted at inception report stage or later with the agreement of the Project Manager. The ratio of working time spent in the Contractor's home office, at the regional offices and on mission in the region should be clearly visible in the Contractor's proposal.

4.2.3. Facilities to be provided by the contracting Authority and/or other parties

The project partners in the beneficiary countries will assist and facilitate the implementation of the project, by providing necessary contacts and liaison with local authorities, free access to all project related information and required documentation (not concerning information considered military and/or classified), by providing the required counterpart staff and by timely decision making procedures as required during the contract implementation. The project partners in the respective countries will provide basic office facilities for the consultants when working for their respective institutions, will assist in obtaining required visas and customs clearances for the eventual contractor's imported equipment and will provide any other assistance required for the good implantation of the project.

The project partners in each country shall appoint a senior staff member of their staff to liaise with the consultant and ensure that local staff of an appropriate level is made available to work alongside the staff of the consultant. Staff of the project partner shall not be paid from project funds.

The Project Partners should also provide all possible assistance to solve unforeseen problems, which the contractor may face. The possible failure to solve some of the consultant's problems encountered locally will not free the Contractor from meeting his contractual obligations vis-à-vis the Contracting Authority.

5. LOGISTICS AND TIMING

5.1. Location

The project area covers all countries in the TRACECA programme and the "Baku Transport Initiative".

The main project office will be located in **Baku**, Azerbaijan, where the Permanent Secretariat is currently located. Secondary project offices can be established in other beneficiary countries according to the needs and priority assessment, in close coordination with the EC Delegations in those countries and with prior approval of the Contracting Authority.

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5.2. Commencement date & Period of execution

The intended commencement date is March 2009 and the period of execution of the contract will be 36 months from this date. Please refer to Articles 4 and 5 of the Special Conditions for the actual commencement date and period of execution.

6. REQUIREMENTS

6.1. Personnel

6.1.1. Key experts

All experts who have a crucial role in implementing the contract are referred to as key experts.

For each sector of activity, each relevant key expert is expected to lead a team of non-key experts in the relevant sector and consequently have management capacity. The profiles of the key experts for this contract are as follows:

Key expert 1: Team Leader – Transport policy expert (minimum 600 working days)

Qualifications and skills

- University Degree or equivalent in Transport Economics/ Transport Engineering/ Transport Planning or related fields

General professional experience

- Preferably 10 years experience in transport policies/transport planning or economics;
- Experience in capacity building and institutional support;
- Experience in international transport policies, including EU policies, and international projects;

Specific professional experience

- 5 years specific experience in transport policies/ transport planning or economics;
- Preferably 5 years experience in transport project design, investment appraisal, and project management;
- Experience in transport policy dialogue in the EU/Tacis region;
- Experience in working with Financial Institutions, whether in the private or state sector, including IFI's;
- Fluent in English; good knowledge of Russian language desirable.

In addition to the technical expertise, the Team Leader should have considerable experience in:

- Managing a team composed of expatriate and local technical specialists;
- Supervising and co-ordinating all aspects of the project's technical work;
- Ensuring good communication with the Project Partners;
- Organising and overseeing administrative and logistic support;
- Experience in regional co-operation, coordination, networking and know-how transfer and exchange in the TACIS region;
- Organising, promoting and delivering high quality conferences.

Key expert 2: Transport Project Development Expert (minimum 500 working days)

Qualifications and skills

- University Degree or equivalent in Transport Economics/ Transport Policy /Transport Engineering or related fields

General professional experience

- Preferably 10 years experience in international (including European) transport economics and infrastructure projects;

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Specific professional experience

- At least 5 years practical experience in transport and infrastructure project identification and technical, economic and financial appraisal.
- Ability to formulate project identification and definition through to project concept, design, appraisal leading to “bankable projects”
- Familiar with transport and geographical information systems, statistical modelling techniques;
- Specific experience in transport sector tariffs, fees and financing issues
- Familiar with project financing methods and funding procedures of the EC and IFI's;
- Familiar with international negotiations
- Fluent in English; knowledge of the Russian language is desirable.

Key expert 3: Financial and PPP Expert (minimum 500 working days)

Qualifications and Skills

- University degree or equivalent in Finance, Accounting or Transport Economics and/or with post degree Finance qualification

General Professional experience

- Preferably 10 years in a finance role, preferably gained in a corporate finance role, and/or in an investment banking or development banking environment;
- Experience in international transport projects and track record of involvement at senior level in developing, financing, implementation and monitoring of complex regional/international integrated transport projects;
- Experience in dealing with senior bankers in Financial Institutions, including IFI's;

Specific professional experience

- At least 5 years experience in transport infrastructure and methods of project financing;
- Experience in all aspects of private sector financing; experience in working with IFI's and international development banks;
- Familiar with Public, Private Partnerships; experience in dealing with the public sector and ministries;
- Extensive financial management capabilities covering all aspect of project finance, investment and project appraisal, including financial modelling;
- Experience of working in the NIS desirable;
- Fluent in English; knowledge of Russian is desirable.

The Consultant is responsible to ensure that all necessary qualifications for the described tasks are covered.

The Contractor's proposal must fully describe the key experts to be assigned to the project, their precise domain of expertise applicable to the project, their individual roles in the achievement of the project objectives, the timing, duration and location of their assignments. Time spent in the beneficiary states and at home office is to be clearly shown and should not be less than 75% of the available person-days.

6.1.2. Other experts

CVs for experts other than the key experts must not be provided in the tender. An indicative list of the specific fields on which these experts will work nevertheless should be attached. The Consultant will provide an indicative database in the expert selection methodology. All experts must be independent and free from conflicts of interest in the responsibilities entrusted to them.

The selection procedures used by the Consultant to select these other experts shall be transparent, and shall be based on pre-defined criteria, including professional qualifications, language skills and work experience. The findings of the selection panel shall be recorded. The other experts shall be subject to prior approval of the European Commission.

The Consultant shall propose the other experts as required according to specific Terms of Reference that will be prepared for each specific mission. These profiles must indicate whether

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they are to be regarded as long-term/short-term and senior/junior so that it is clear which fee rate in the budget breakdown will apply to each profile. Prior to each mission the Consultant will provide the Commission with specific Terms of Reference and the CVs for each position of proposed expert. For each assignment the Consultant will provide the necessary background documentation. Short-term experts will also be expected to provide a report at the end of their assignment. The selection of experts shall be subject to approval by the European Commission.

Note that civil servants and other staff of the public administration of the beneficiary country cannot be recruited as experts.

The project will support data collection in each TRACECA country, with the recruitment of local data collection experts in coordination with the TRACECA Secretariat and with approval of the EC Project Manager.

The project includes provision for undertaking of Feasibility Studies. Completion of such studies will be undertaken by mobilising an appropriate team of short term experts or through a sub-contracting arrangement.

The contractor is free to compile its team of short and medium term assignments. Although not exclusive, the following skill sets should be clearly visible in the proposed staff list:

- Transport planning, transport statistics, transport economics, transport informatics;
- Traffic simulation and modelling;
- General and where possible specific international and EU Transport legislation knowledge;
- Transport sector specialists: Aviation (Airports and Civil Aviation), Maritime (Ports and Shipping), Road and Rail, Logistics, Tariffs, Freight Forwarding, Customs and Border controls;
- Investment Appraisal.
- Financial Modelling;
- Project and Infrastructure financing;
- Public, Private Partnerships
- Training and Capacity building
- Communications, Publications and Dissemination
- Web-site management
- Conference and Event management.

All experts should have a university education or equivalent in economics, transportation, finance, accounting, banking, educational or communication sciences or other appropriate relevant professional education. Field experience in the NIS and/or Central European countries is desirable. Fluency in English is necessary and knowledge of the Russian language is desirable.

The Contractor's proposal must fully describe the key experts to be assigned to the project, their precise domain of expertise applicable to the project, their individual roles in the achievement of the project objectives and activities, the timing, duration and location of their assignments. Time spent in the beneficiary states and at home office should be clearly shown.

6.1.3. Support staff & backstopping

It is mandatory to have backstopping and support staff available for this project. Backstopping and support staff costs are considered to be included in the fee rates of the experts.

6.2. Office accommodation

Project Office: Office accommodation of a reasonable standard and of approximately 10 square metres for each expert working on the contract is to be provided by the Consultant. The costs of the Project Offices are to be covered by the provision for incidental expenditure. The cost per square meter must be in line with the prevailing local market rate for office accommodation of a reasonable standard.

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Office Space for Experts on mission: Office accommodation of a reasonable standard shall be made available to the experts free of charge by the respective partner institutions in accordance with the missions of the consultant.

6.3. Facilities to be provided by the Consultant

The Consultant shall ensure that experts are adequately supported and equipped to work effectively and will be responsible for all charges relating to the rental and running of the office (i.e. furniture, personal computers, phones, fax machines, electricity, heating, etc).

The space available will be sufficient to provide adequate working conditions for project team. In particular it shall ensure that there is sufficient administrative, secretarial and interpreting provision to enable experts to concentrate on their primary responsibilities. It must also transfer funds as necessary to support its activities under the contract and to ensure that its employees are paid regularly and in a timely fashion.

If the Consultant is a consortium, the arrangements should allow for the maximum flexibility in project implementation. Arrangements offering each consortium partner a fixed percentage of the work to be undertaken under the contract should be avoided.

6.4. Equipment

No equipment is to be purchased on behalf of the Contracting Authority / beneficiary country as part of this service contract or transferred to the Contracting Authority / beneficiary country at the end of this contract. Any equipment related to this contract which is to be acquired by the beneficiary country must be purchased by means of a separate supply tender procedure.

6.5. Incidental expenditure

The Provision for incidental expenditure covers the eligible incidental expenditure incurred under this contract. It cannot be used for costs, which should be covered by the contractor as part of its fee rates, as defined above. Its use is governed by the provisions in the General Conditions and the notes in Annex V of the contract. It covers:

- 1) Travel costs and subsistence allowances for missions to be undertaken as part of this contract to and from the base of operations in the beneficiary countries;
- 2) Stakeholders, Regional Coordination Meetings, Ministerial Conferences and IFIs coordination meetings (2 participants per country);
- 3) Seminars, workshops, training and study tours;
- 4) Translation and publication of documents and studies relevant to the implementation of the project;
- 5) Office rent (if applicable);
- 6) Office running costs (stationery, communication costs, energy) and excluding purchase of office equipment

The Provision for incidental expenditure for this contract is **EUR 2,000,000**. This amount must be included without modification in the Budget breakdown.

The Consultant will need prior written approval from the Contracting Authority before spending the funds related to the components (2), (3), (5). No written approval from the Contracting Authority will be needed for spending funds related to the components (1), (4) and (6), however all supporting documents must be kept by the Consultant as indicated in art. 24 of the General Conditions for Service Contracts financed by the EC.

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Any subsistence allowances to be paid for missions undertaken as part of this contract to and from the base of operations in the beneficiary countries must not exceed the per diem rates published on the Web site http://ec.europa.eu/europeaid/work/procedures/index_en.htm at the start of each such mission.

6.6. Expenditure verification

The Provision for expenditure verification relates to the fees of the auditor who has been charged with the expenditure verification of this contract in order to proceed with the payment of pre-financing instalments if any and/or interim payments if any.

The Provision for expenditure verification for this contract is € 20,000. This amount must be included without modification in the Budget breakdown.

7. REPORTS

7.1. Reporting requirements

Please refer to Article 26 of the General Conditions. Interim progress reports must be prepared every six months during the period of execution of the contract. They must be provided along with the corresponding invoice, the financial report and the expenditure verification report defined in Article 28 of the General Conditions. There must be a final report, a final invoice and the financial report accompanied by an expenditure verification report at the end of the period of execution. The draft final report must be submitted at least one month before the end of the period of execution of the contract. Note that these interim and final reports are additionally to any required in Section 4.2

Each report shall consist of a narrative section and a financial section. The financial section must contain details of the time inputs of the experts, of the incidental expenditure and of the provision for expenditure verification.

A short Inception Report will be issued within 3 months of the start of the project. It shall summarise initial findings and propose any modifications to the methodology and work plan. It will also confirm or modify institutes/organisations/consulting bodies to be directly involved in the implementation. The report distribution lists will be included.

In addition to the above formal reports, the Contractor shall provide such information on project progress as it is reasonable required by the Methodology and the European Commission, and shall regularly inform the Commission of political, economical or institutional developments of relevance to the project. The Contractor shall in particular provide electronic and hard copies of recommendations elaborated, training material prepared under this project, report of short-term specialists, any other document which requires prior approval as stated in the project description above.

No report or document shall be distributed to third parties prior to the approval by the Project Manager of the European Commission. The contractor shall pay particular attention to the confidentiality of data. Reports, as well as press statements, etc., made by the contractor will make clear that any opinions expressed therein remain those of the Contractor and do not represent the opinion of the European Commission.

Copyright on all reports and other material prepared under this contract shall reside with the European Commission.

Contractors are advised to print all the above-mentioned reports double sided.

7.2. Submission & approval of progress reports

All reports are to be delivered in the numbers, languages and locations as follows:

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	Bound Hard Copy		Electronic Copy on CD
	English	Russian	English & Russian
EC Project Manager Brussels	2		1
TRACECA National Secretaries of beneficiary countries	1	1	1
TRACECA Permanent Secretariat in Baku	2	2	1
TACIS Coordinating Unit (Beneficiaries States)	1	1	1
EC Delegations in the beneficiary States	1	1	1
Tacis Monitoring Team (Regional Office)	1	1	1

The Project Manager is responsible for approving the progress reports.

In order to implement the reports on the TRACECA web site and to allow further data processing, reports must be provided by the contractor under an electronic file “.doc” or “.pdf”. In any case, all texts must be composed with common and scan-able fonts, including for tables, maps, diagrams, drawings etc.

Only photographs, logos and facsimiles of original documents will be accepted under a bitmap graphic format (inside the “.doc” or “.pdf” file) though in this case they cannot be used in the document data processing. The resolution of bitmap files must be 150 dpi or less. Each report must correspond to one single “.doc” document or “.pdf” file. Reports transmitted in multiple files and of different kind will be refused. Contractor is invited to contact the Webmaster before any file transfer.

The reports and working papers on the many issues covered by this project should be issued regularly and discussed with the beneficiaries.

The Contractor is to compose and provide in his Technical Proposal a schedule of separate deliverables appropriate to specific technical and commercial components of the project. Formal draft versions are not required, but the contractor should carefully discuss the proposed contents with, and provide draft extracts upon request to the EC Project Manager in Brussels, before issuing deliverables.

8. MONITORING AND EVALUATION

8.1. Definition of indicators

The contractor shall incorporate monitoring mechanisms for periodic assessment of the progress of the project work components. Specific performance measures can be selected because they provide valid, useful, practical and comparable measures of progress towards achieving expected results. Such measures can be **quantitative**: measures of quantity, including statistical statements; or **qualitative**: judgements and perception derived from subjective analysis of progress made.

The essential points to be monitored *inter-alia*, include:

- Deviations of progress against previously agreed project milestones;
- Adherence to the work plan in terms of the project activities and results;
- Deviations in effort and resources needed to complete an activity as compared to plan;
- Introduction of new work activities not included in the original plan;
- Appearance of obstacles, constraints and other issue which prevent or impact adversely on project completion and which require project escalation.

8.2. Special requirements

Consultants are not permitted to participate in Calls for Tender for which they have been involved in the process of preparing Terms of Reference.