

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB3487

Project Name	IDP Economic Development Support Project -- Additional Financing
Region	EUROPE AND CENTRAL ASIA
Sector	Other social services (50%); General water, sanitation and flood protection sector (25%); General transportation sector (25%)
Project ID	P107613
Borrower(s)	REPUBLIC OF AZERBAIJAN
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Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> F <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	November 27, 2007
Date of Appraisal Authorization	December 12, 2007
Date of Board Approval	February 28, 2008

1. Country and Sector Background

The 1992-94 armed conflict between Armenia and Azerbaijan over the Upper Garabagh region caused the displacement of almost 800,000 persons. Of these around 210,000 were refugees from Armenia and 589,000 Internally Displaced Persons (IDPs) from the parts of Azerbaijan territory occupied by the Armenian armed forces.

Initial Government efforts gave priority to resettling the refugees from Armenia. Meanwhile the majority of IDPs found precarious temporary accommodations in tent camps, railway cars, or unfinished buildings. Many others moved to dormitories, hotels, public buildings, or informal settlements lacking basic services such as water supply, electricity, access roads, schools, or health care facilities.

As hopes for a rapid settlement of the conflict have faded, the Azerbaijan Government has in recent years begun to revise its strategies and approaches to the IDP population and increasingly invests in improvements to their living conditions. Starting in 2002 the Government began to relocate approximately 60,000 IDPs still living in tent camps and rail yards to about 40 newly constructed settlements built in previously unoccupied areas of the country with funding from

the Azerbaijan State Oil Fund. In November 2007, the Government announced plans to extend this program to an additional 60,000 IDPs living in precarious shelters in the remaining tent camps, railway cars and in other poor-quality shelters.

The large-scale investments made under this program have contributed to resolving the problems of those IDPs living in the harshest conditions. However, the Government efforts have not been able to address the critical need for continuing improvement in living conditions for the approximately 400,000 remaining IDPs scattered in small communities throughout the country and living in temporary shelters. The IDP Economic Development Support Additional Financing aims to address the needs of these IDPs and to improve their living conditions through micro-projects that invest in small scale infrastructure and services.

2. Objectives

The objective of the IDP EDS Additional Financing is: to improve living conditions for IDPs, through demand-driven community based infrastructure and service micro-projects.

Key indicators:

- % of micro-projects that achieve their expected results for improvement in living conditions, as rated by community members and SFDI staff;
- # of micro-project beneficiaries;
- % of beneficiaries who are women, youth, children;
- % of beneficiaries who are IDPs.

3. Rationale for Bank Involvement

The Bank is well positioned to continue assistance to IDPs in Azerbaijan given its long involvement starting at the immediate post-conflict period in the mid 1990's. At this time the Bank provided a USD 20 million equivalent IDA credit for reconstruction of areas temporarily occupied by Armenian forces during the conflict (The Pilot Reconstruction Project, Cr. 31090-AZ). A USD 10 million equivalent Supplemental Credit was approved in June 1999 to support improvements in the living conditions of IDPs and to establish the Azerbaijan Social Fund for Internally Displaced Persons (SFDI) to administer the response.

In February 2005, the Bank approved the Azerbaijan IDP-EDS (Cr. 40340-AZ; USD 11.5 million equivalent). The objective of this repeater project was to help improve the living conditions of IDPs and enhance their economic opportunities and prospects for social integration. The project included three components: (a): micro-projects; (b): micro-credits; and (c): implementation support.

The rationale for providing Additional Financing for IDP-EDS is to allow SFDI to expand its operations under the ongoing micro-project component of IDP-EDS to a large portfolio of about 300 unanswered requests for micro-project assistance received from IDP communities. Scaling-up the micro-project operations is justified for the following two reasons:

- a) *The number of IDPs in need of assistance remains substantial:* Many of the 400,000 IDPs living outside the new settlements continue to suffer from excessively poor housing conditions. The economic situation of most of these IDPs remains precarious. The 2006 State Program on Poverty Reduction and Economic Development (SPPRED) found that

some 63% of all IDPs live in poverty and that 70% are unemployed. The IDP-EDS already helped improve the living conditions of about 100,000 beneficiaries, while IDP-EDS Additional Financing will allow the needs of another 150,000 IDPs to be addressed.

- b) *Support from other donors for the IDP population is decreasing rapidly:* Donor support for the IDPs in Azerbaijan has significantly decreased in recent years. After completion of the *Resettlement and Reconstruction of Liberated Territories Program* in the early 2000's most donors significantly reduced their involvement, limited it to purely humanitarian assistance, or left Azerbaijan altogether in response to growing demands from areas of more recent conflicts. At present, the Bank is the only major donor engaged in the sector with the operational experience and expertise needed to implement large-scale assistance programs for IDPs.

4. Description

The Additional Financing will allow SFDI to scale-up the ongoing operations under Components A (Micro-Projects) and C (Implementation Support):

Component A, Micro-projects: SFDI will prepare and implement about 250 small-scale projects at an average cost of between USD 60,000-80,000. As in the ongoing project, the micro-projects would focus on the rehabilitation, repair or reconstruction (including the acquisition of related equipment) for (a) basic small infrastructure, such as water supply and sewage networks, electricity and natural gas distribution networks, access roads, drainage and irrigation systems, etc.; (b) social infrastructure such as schools and community centers; and; (c) temporary shelter facilities.

Component B, Implementation Support: This component will support the operating costs of SFDI, SFDI staff training, repair and replacement of SFDI equipment and vehicles, and consulting services for project preparation, monitoring and evaluation, and audits during the additional three year period.

5. Financing

Source:	(\$m.)
BORROWER/RECIPIENT	5.5
International Development Association (IDA)	15
Total	20.5

6. Implementation

The project will rely without any major change on the implementation arrangements agreed in the IDP-EDS for SFDI. The organizational structure and working procedures of SFDI are defined in an Operations Manual (OM). The OM has been revised to take into account the lessons learned and experienced gained from the IDP-EDS.

7. Sustainability

Prior to implementation, the ownership and future operation and maintenance of each selected micro-projects is agreed with communities and relevant authorities (for example, in the case of schools with the Ministry of Education). On completion of the works SFDI transfers the ownership of the asset in accordance with this agreement. The sustainability of SFDI is highly likely given that SFDI is also responsible for construction of the new settlements for IDPs funded by the Azerbaijan State Oil Fund.

8. Lessons Learned from Past Operations in the Country/Sector

The design of IDP-EDS AF will be strengthened based on lessons learned from IDP-EDS. It is proposed that technical quality of the micro-projects will be improved by closer supervision of micro-project preparation and implementation and greater participation of the community in the micro-project cycle. To this end it has been agreed that SFDI will add regionally based technical specialists, which will allow closer monitoring of the micro-project cycle process. The Additional Financing will also give greater recognition to the social effects of the micro-projects and seek to better understand and strengthen the benefits for social relations, psychosocial well being and community activism. Enhanced monitoring and evaluation procedures will focus on collecting and understanding the social consequences of micro-projects. Given that the full involvement of communities in the micro-project cycle remains central to achievement of the social aims of the project, the Additional Financing will ensure more micro-project decisions are made in consultation with more community members. Additional staff with community mobilization and evaluation responsibilities will be recruited to strengthen these aspects.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Involuntary Resettlement (World Bank OP 4.12): IDP/EDS/AF will not trigger OP/BP 4.12 as the project will deal exclusively with rehabilitation/repair/upgrading of existing infrastructure and installations on existing premises or new routes on public rights of way which will not entail any land acquisition, relocation of population, or restrictions on access to resources.

Environmental Assessment (World Bank OP 4.01): IDP/EDS-AF is not expected to have any significant or irreversible environmental impacts, and is classified as Environmental Category

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

"F". Many of the micro-projects are expected to produce environmental benefits. However, because these projects are not pre-identified, there could be unforeseen environmental impacts during implementation. The IDP/EDS OM section includes an Environmental Management Plan Framework (EMPF), which has recently been reviewed and found satisfactory for assessing and mitigating the minor impacts that could occur in specific micro-projects. Adequate institutional capacity for environmental management has already been established in SFDI through the IDP/EDS project.

Projects on International Waterways (OP 7.50: "Like the on-going IDP/EDS Project , the Additional Financing is expected to finance *inter alia* community micro-projects (of an average cost of about US\$ 60,000-80,000) to upgrade, replace, and/or repair existing water supply and sewerage installations in buildings or neighborhoods occupied by small communities of Internally Displaced Persons (IDPs) in rural and urban areas of Azerbaijan. These activities , some of which may be on international waterways, are minor additions or alterations to existing infrastructure, and do not alter or expand its scope and extent , or adversely change the quality or quantity of water flows to other riparians . This was the basis for the exception to the Notification to Riparians under para 7 (a) of OP 7.50 that was obtained for the original IDP-EDS Project. Since the project activities under the Additional Financing are identical to those of the ongoing IDP/EDS project, the rationale for the exception remains applicable, and accordingly no notification of other riparians is required under OP 7.50."

10. List of Factual Technical Documents

Appraisal reports and background documents on IDP-EDS.

11. Contact point

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