

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

Report No.: AB3593

<b>Project Name</b>	RURAL INVESTMENT (AZRIP) ADDITIONAL FINANCING
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Sector</b>	Roads and highways (31%);Other social services (22%);Sub-national government administration (20%);Water supply (18%);Power (9%)
<b>Project ID</b>	P109885
<b>Borrower(s)</b>	AZERBAIJAN
<b>Implementing Agency</b>	State Agency on Agricultural Credits, Ministry of Agriculture Azerbaijan Rural Investment Project - Project Management Unit The Government House 40 U. Hajibekov str. Azerbaijan AZ1016 Tel: (994-12) 493-4813 Fax: (994-12) 493-4813 Subhan@azrip.org
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
<b>Date PID Prepared</b>	January 25, 2008
<b>Date of Appraisal Authorization</b>	January 29, 2008
<b>Date of Board Approval</b>	March 27, 2008

### 1. Country and Sector Background

Themes: Rural services and infrastructure (P); Participation and civic engagement (P); Infrastructure services for private sector development (S); Decentralization (S)

Context: Since the demise of the Soviet Union, Azerbaijan has experienced many of the same challenges as other CIS transition economies including economic decline, deterioration in state services and infrastructure (particularly in rural areas), and a rise in poverty. Since independence, oil and gas discoveries have given Azerbaijan new means of combating poverty and developing into a diversified, sustainable middle-income economy in the coming years. Driven by the new oil boom, per capita income rose to US\$1,240 in 2005, up from a post-independence low of just US\$470 in 1995.

Agriculture plays a central role in Azerbaijan's economy. In 2002, the sector contributed 15% of GDP but in 2005 this figure had fallen to 10% of GDP according to the CPS FY07-10. As pointed out in the Country Partnership Strategy (CPS) for FY07-10, poverty in Azerbaijan is now declining rapidly, however most improvements in welfare have been concentrated in the capital, Baku. This document points out that outside of Baku lack of employment and assets, coupled with poor access to social services, are driving intense rural-urban migration, while lack of infrastructure discourages investment and commercial activity.

The original IDA Specific Investment Loan Credit (SIL) of SDR 10.2 million (US\$ 15 million equivalent) for the Rural Investment Project was signed on September 23, 2004; it became effective on January 18, 2005. The closing date is currently March 31, 2009. The US\$21.10 million Project is financed by the IDA Credit of US\$15.0 million; a PHRD grant of US\$3.30 million, Government counterpart funding amounting to US\$1.35 million, and community beneficiary financing of US\$ 1.45 million.

## **2. Objectives**

The objective of the proposed scaled up project is for households in rural communities completing micro-project investments to achieve improved living standards through improved access to infrastructure services.

## **3. Rationale for Bank Involvement**

The key performance indicators show that the current project's development objectives are well on the way to being achieved. Field visits confirm that the projects reach the intended beneficiaries and effectively respond to the priority needs of target communities and populations. In addition, technical supervision confirms that works are generally of good technical quality. Overall, the project has a significant developmental and institutional impact on the rural Azeri communities in which it operates. The project has contributed to an improvement in the living conditions of households in rural communities by (a) facilitating participatory development planning, thereby enhancing capacity to address needs, and (b) providing and rehabilitating priority rural infrastructure identified by communities (e.g., roads, water supply, schools, health posts). The project has also established institutional capacity to promote community development within the State Agency on Agricultural Credits (SAAC) under the Ministry of Agriculture.

Rationale for Additional Financing: Additional Financing is requested to extend the life of the project by three years (to March 2012) and expand the project to new areas and scale up activities under all components of the successfully implementing current project. Scaling-up the operations is justified for the following reasons: i) living conditions in rural areas remain a problem; ii) AzRIP is one of the few vehicles available to address rural needs and to support community-driven development activities in the countryside; iii) demand from rural communities has been consistently strong; and iv) the project benefits from a high level of Government commitment.

## **4. Description**

This is additional financing to scale up the ongoing Rural Investment Project. The original IDA Specific Investment Loan Credit (SIL) of SDR 10.2 million (US\$ 15 million equivalent) was signed on September 23, 2004 and became effective on January 18, 2005. The additional financing credit will support the costs associated with scaling-up the ongoing project to 23 new districts and between 875,000 and 1 million additional beneficiaries, thus contributing to a significant enhancement of its impact and development effectiveness.

The project has three components:

Component A – Infrastructure. The proposed additional financing will support an additional 300 demand-driven micro-projects (MPs) in rural infrastructure. MP expenses eligible for financing from the project include identification, design, construction, rehabilitation, and initial operation and maintenance of the investment. Potential investments include basic economic (e.g., rehabilitation of secondary roads, water systems, electricity transformers) and social (e.g., schools and health clinics) infrastructure, based on the priority needs identified by communities. Funded micro-projects are designed to increase access to, and quality of, local economic and social infrastructure (e.g., markets, roads, schools, clinics). Improved access to local infrastructure reduces household transaction costs, thereby freeing up household resources for greater market participation and ultimately increased household incomes. The project targets rural communities (greater than 1,000 and less than 10,000 people) in regions that meet criteria for high agricultural potential and have a high incidence of poverty. The average size of micro-projects under the original credit was US\$34,000 but because of inflation, under the additional financing this is increased to US\$ 55,000. Micro-projects over US\$85,000 will require prior review by IDA and the project’s Working Group.

Component B -- Capacity Enhancement funds training and technical assistance for MP implementation. This section helps create the required capacity of involved local stakeholders, e.g., communities, recipients, and Regional Grant Approval Committees (RGACs) and staff in the Regional Operations Offices (ROOs). In the community mobilization phase, communities and recipients are assisted in all aspects of micro-project development. Recipients receive training in contracting, procurement, financial management, and participatory monitoring and evaluation (PM&E). This component also comprises a broad dissemination campaign which targets stakeholders at large and includes rayon and central government authorities.

Component C -- Project Management. This component finances the administrative and operational project implementation and management costs, including hiring of Project Management Unit (PMU) professional staff as well as PMU and ROO support staff, travel cost and per diem, and support to RGACs.

## 5. Financing

Financing Plan (US\$m)			
Source	Local	Foreign	Total
Borrower	3.09	1.91	5.0
IDA	10.28	4.72	15.0
Communities	0.63	1.03	1.66
Total	14.66	7.66	21.66

## 6. Implementation

Some incremental changes in institutional arrangements have been implemented beginning January 1, 2008 to increase efficiency and reduce costs. Hence, they apply equally to the original credit and to the Additional Financing.

Until recently, the PMU’s Regional Operations Offices (ROOs), the Service Provider/Project Assistance Team (SP and PAT - responsible for community facilitation), the Technical Design

Company (a recent innovation to strengthen the technical quality of micro-projects), and the Regional Grants Approval Committees (RGACs) were physically located in different places and often worked largely independently of each other. As of the beginning of 2008, the ROOs have become “umbrella” offices incorporating all of the above in one location, under the coordination of a Program Specialist functioning as an extension of the PMU. At the same time the PMU’s professional staff in the ROOs has been reduced by about half.

These small changes will make the organizational aspects more cost effective. The role of the Project Assistant Team (PAT – an extension of the PMU, as opposed to the sub-contracted Service Providers - SP), which was already playing the role of Service Provider (SP) in one zone, has been expanded to replace the SPs (whose contracts have already finished) to carry out community mobilization and capacity development in all zones. Technical design companies would be hired in the newly added zones as under the existing credit. It is expected that the design companies, like those operating in the current zones, will help develop local capacity for infrastructure development and maintenance. The RGACs will also be housed within the ROOs, in order to facilitate communication. Under the Additional Financing, the existing ROOs in two of the current zones would be relocated to the new zones. The ROO in Nakhchivan would continue to operate, but with the revised structure described above.

The PMU expects that this streamlined project implementation structure will generate cost saving of about USD 800,000 over 30 months during implementation of the Additional Financing. This streamlining of project implementation should increase the efficiency of project implementation without unnecessarily compromising critical aspects of the project.

## **7. Sustainability**

After achieving significant progress (in quality and quantity) in micro-project implementation, AzRIP is now focusing on strengthening micro-project sustainability. Under the additional financing an international consultant would be hired to assess stakeholders’ capacity (i.e., communities, local governments and private firms for infrastructure maintenance) to help ensure the sustainability of communities’ infrastructure projects. This assessment would cover legal aspects, cost/benefit analyses, division of responsibilities between stakeholders, co-financing options, and recommendations for sustainability. In addition, a standard format for maintenance plans has been introduced which comprises all necessary maintenance works and activities including their detailed costs. Furthermore, the economic analysis of micro-projects is being strengthened to provide a more solid basis for maintenance plans.

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

The scaled up project will take on board the lessons learned from the original AzRIP as well as from other operations in the sector and Azerbaijan. The original project incorporated the following lessons in its design and implementation:

- 1) *Involve key stakeholders at all levels early in project design and preparation.*
- 2) *Incorporate pilot project experience.*
- 3) *Successful technical assistance needs to put in place sufficient capacity and sustainable behavioral change.*
- 4) *Ensure adequate implementation, procurement, and financial management capacity*
- 5) *Build on lessons learned from other demand driven projects in Azerbaijan.*

Implementation of the original credit has also produced a number of lessons, which have resulted in a number of incremental changes both for the implementation of the original credit and to be adopted under the Additional Financing. These lessons can be summarized as follows:

- 1) *Institutional arrangements can be made more efficient and cost effective.* Changes in response to this lesson are described in section 6 above.
- 2) *It is important to ensure the technical quality of micro-projects and further develop local capacity for infrastructure development and maintenance.* To this end, the PMU has, *inter alia*, added engineers to its staff, arranged for technical design companies to support communities in preparing projects, and prepared design standards and standards for maintenance plans.
- 3) *Disbursement can also be made more efficient.* In this respect three changes would be implemented under the Additional Financing: (a) Contractors would be paid directly by the PMU, at the request of beneficiary communities, to avoid delays, ensure transparency, minimize external interference, and prevent the waste of funds; (b) By having one unique disbursement category the need for reallocation would be eliminated; and c) Counterpart funds would be used exclusively to finance certain micro-projects, thereby avoiding having to use multiple sources of funds for specific expenditures.

## **9. Safeguard Policies (including public consultation)**

The Environmental Management Plan (EMP) has been revised to address additional preventive/mitigation measures associated with the presence of environmentally sensitive zones located in the scaled up project areas. The revised EMP was disclosed locally in Azerbaijan on January 29, 2008 and in the Bank's InfoShop on January 29, 2008. Minutes of disclosure meetings will be recorded and kept at the PMU. Environmental assessment (EA) requirements will be followed by both Community Project Committees and the PMU at all stages of micro-project design, appraisal, implementation and evaluation. Specific EA documents will be prepared for individual micro-projects to be identified during project implementation.

No changes in the triggering of safeguards are envisaged. Environmental Assessment is triggered and discussed above. The International Waterways safeguard is also triggered, although no significant changes to quality or volume of water flows are expected. Notification letters were sent to relevant riparians on December 27, 2007, with a request that any comments be received by January 27, 2008. No other safeguards are triggered. The Project's Working Group has reconfirmed that the acquisition of private land is not allowed under micro-projects. Although Physical Cultural Resources is not triggered, the Operational Manual includes procedures to be followed in the event of chance finds.

## **10. List of Factual Technical Documents**

- **AzRIP Operational Manual.**
- **Environmental Management Plan (EMP)**
- **Project Appraisal Document (PAD) of original project.** Date May 6, 2004

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