PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$ 50 MILLION

TO THE

REPUBLIC OF AZERBAIJAN

FOR THE

INTERNALLY DISPLACED PERSONS
LIVING STANDARDS AND LIVELIHOODS PROJECT

SEPTEMBER 29, 2011

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CURRENCY EQUIVALENTS

Exchange Rate Effective September 2011

Currency Unit = AZN
0.8AZN = US$1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CU Credit Union
ERR Economic Rates of Return
ESW Economic and Sector Work
FM Financial Management
GoA Government of Azerbaijan
IDA International Development Association
IDP Internally Displaced Person
IDP-EDS Internally Displaced Persons Economic Development Support Project
IGA Income Generating Activity
NGO Non Governmental Organization
OM Operational Manual
PLI Partner Lending Institution
SFDI Social Fund for the Development of IDPs
SHG Self Help Group

Regional Vice President: Philippe H. Le Houerou
Country Director: Asad Alam
Sector Director: Peter D. Thomson
Sector Manager: Carolyn Turk
Task Team Leader: Joanna P. de Berry
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## Basic Information

<table>
<thead>
<tr>
<th>Date:</th>
<th>29-Sept-2011</th>
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</thead>
<tbody>
<tr>
<td>Country Director:</td>
<td>Asad Alam</td>
</tr>
<tr>
<td>Sector Manager/Director:</td>
<td>Carolyn Turk/Peter D. Thomson</td>
</tr>
<tr>
<td>Project ID:</td>
<td>P122943</td>
</tr>
<tr>
<td>Lending Instrument:</td>
<td>Specific Investment Loan</td>
</tr>
<tr>
<td>Team Leader(s):</td>
<td>Joanna Peace De Berry</td>
</tr>
<tr>
<td>Sectors:</td>
<td>Other social services (25%), Public administration- Other social services (25%), General education sector (25%), General transportation sector (25%)</td>
</tr>
<tr>
<td>Themes:</td>
<td>Conflict prevention and post-conflict reconstruction (50%), Rural non-farm income generation (20%), Urban services and housing for the poor (20%), Participation and civic engagement (10%)</td>
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<tr>
<td>EA Category:</td>
<td>B - Partial Assessment</td>
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Does the project include any CDD component? Yes

Joint IFC: No

Borrower: Republic of Azerbaijan

Responsible Agency: Social Fund for the Development of Internally Displaced Persons

Contact: Ayaz Orujov
Title: Director
Telephone No.: 994-12495-30238386
Email: office@sfdi.net

Project Implementation Period:
- Start Date: 01-Jan-2012
- End Date: 31-Dec-2015

Expected Effectiveness Date: 01-Mar-2012
Expected Closing Date: 30-Jun-2016

## Project Financing Data(US$M)

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<thead>
<tr>
<th>[ ] Loan</th>
<th>[ ] Grant</th>
<th>[ ] Credit</th>
<th>[ ] Guarantee</th>
<th>[ ] Other</th>
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<tbody>
<tr>
<td>Total Project Cost (US$M) incl VAT:</td>
<td>78.42</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Bank Financing (US$M):</td>
<td>50.00</td>
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</table>

US dollar denominated flexible IBRD Loan with a fixed spread and a final maturity of 20 years including a 5 year grace period with repayments linked to commitments.

<table>
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<tr>
<th>Financing Source</th>
<th>Amount(US$M)</th>
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<td>Borrower</td>
<td>28.42</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>Financing Gap</td>
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<tr>
<td>Total</td>
<td>78.42</td>
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### Expected Disbursements (in USD Million)

<table>
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<tr>
<th></th>
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<td>Annual</td>
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<td>25.50</td>
<td>19.42</td>
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<td>Cumulative</td>
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<td>78.42</td>
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### Project Development Objective(s)

The objective of the Project is to improve living conditions and increase the economic self-reliance of targeted internally displaced persons.

### Components

<table>
<thead>
<tr>
<th>Component Name</th>
<th>Cost (USD Millions) net of VAT</th>
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<tr>
<td>Micro-projects</td>
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<tr>
<td>Housing Renovations</td>
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<tr>
<td>Livelihood Support</td>
<td>11.00</td>
</tr>
<tr>
<td>Project Management and Capacity Building</td>
<td>7.00</td>
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### Compliance

### Policy

- Does the project depart from the CAS in content or in other significant respects? Yes [ ] No [ X ]
- Does the project require any exceptions from Bank policies? Yes [ ] No [ X ]
- Have these been approved by Bank management? Yes [ ] No [ X ]
- Is approval for any policy exception sought from the Board? Yes [ ] No [ X ]

**Explanation:**
The Regional Vice President approved exception to the notification requirements under OP7.50 ‘Projects on International Waterways’ pursuant to paragraph 7 (a) of OP 7.50.

- Does the project meet the Regional criteria for readiness for implementation? Yes [ X ] No [ ]

### Safeguard Policies Triggered by the Project

<table>
<thead>
<tr>
<th>Policy</th>
<th>Yes</th>
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<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>Yes</td>
<td>X</td>
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<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
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<tr>
<td>Pest Management OP 4.09</td>
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<td>Projects on International Waters OP/BP 7.50</td>
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<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
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### Legal Covenants

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>LA Article V, 5.01 (a)</td>
<td></td>
<td>31-Mar-2012</td>
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</table>
### Description of Covenant

**Effectiveness Conditions:** The Subsidiary Agreement has been executed on behalf of the Republic of Azerbaijan and SFDI.

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<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>LA Article V, 5.01 (b)</td>
<td>Recurrent</td>
<td>01-Jan-2012</td>
<td></td>
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</table>

### Description of Covenant

**Effectiveness Conditions:** SFDI has adopted the revised Operational Manual, satisfactory to the Bank.

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>LA Schedule 2, Section I, A; PA Schedule, Section 1, A</td>
<td></td>
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<td></td>
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</table>

### Description of Covenant

**Implementation Conditions:** The Republic of Azerbaijan shall cause SFDI to carry out the Project in accordance with Loan Agreement, the Project Agreement, Subsidiary Agreement, the Operations Manual.

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>LA Schedule 2, Section I, D1; PA Schedule, Section I, C1</td>
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</table>

### Description of Covenant

**Safeguard Conditions:** The Republic of Azerbaijan shall ensure that the Project is carried out by SFDI in accordance with the provisions of the EMPF.

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>LA Schedule 2, Section II, A1; PA Schedule, Section II, A.</td>
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</table>

### Description of Covenant

**Reporting Conditions:** SFDI shall submit progress reports based on agreed upon indicators to the Bank each quarter.

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
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<th>Frequency</th>
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</thead>
<tbody>
<tr>
<td>LA Schedule 2, Section IV, B1</td>
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</table>

### Description of Covenant

**Retroactive Financing:** no withdrawal for payments made prior to the date of the LA, apart from withdrawals not to exceed an amount US$800,000 on or after October 15, 2011 for eligible expenses.

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
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</thead>
<tbody>
<tr>
<td>LA Schedule 2, Section I, D2; PA Schedule, Section I, C2</td>
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</table>

### Description of Covenant

**Safeguard Conditions:** SFDI shall ensure that works are implemented in accordance with site specific EMP.
I. STRATEGIC CONTEXT

A. Country Context

1. Over the last decade Azerbaijan has made significant strides in poverty reduction; in 2010, some 9.1 percent of the population was poor compared to 50 percent in 2001. Poverty reduction stemmed from significant economic growth over the last decade. Due to increasing oil and gas revenues, Azerbaijan experienced an average annual growth rate of 18.5 percent in 2005-2010. Driven by the oil boom, per capita income rose from a post-independence low of just US$470 in 1995 to almost US$6000 in 2010. The impacts of the economic crisis have been more limited in Azerbaijan than in other countries in the region; while the growth rate slowed, it remained positive.

2. Nevertheless, challenges remain. First, not all areas of the country have benefitted equally from growing prosperity. During the past decade, urban areas experienced a more rapid decline in poverty than rural areas; in 2010 the rate of poverty in rural areas was 13 percent, compared to 5.8 percent in cities but disparities between urban areas also grew substantially, particularly between Baku and other cities. This situation is of concern to the Government of Azerbaijan who is addressing it through a number of programs. Second, Azerbaijan’s economy is mainly reliant on extractive industries. This reliance presents an obstacle to sustainable and diversified growth, and heightens vulnerability to market shocks. The still nascent economic diversification could put the substantial progress made to date in poverty reduction at risk.

3. Conflict between Armenia and Azerbaijan over the Nagorno-Karabakh region remains unresolved and poses a source of instability in the region. During the Soviet Union, the bi-ethnic region of Nagorno-Karabakh populated by both Armenians and Azerbaijanis, was part of Azerbaijan. At the fall of the Soviet Union, the Armenian community of Nagorno-Karabakh supported by Armenia contested the status of the region within Azerbaijan. The dispute flared into full scale conflict from 1992 to 1994. At the close of hostilities, Armenia occupied Nagorno-Karabakh and seven surrounding districts of Azerbaijan. The conflict resulted in large scale displacement affecting up to one million people including both ethnic Azerbaijanis who left Armenia as refugees to settle in Azerbaijan, and Azerbaijanis from Nagorno-Karabakh and the surrounding districts who fled as internally displaced persons (IDPs) into other regions of the country. Although a ceasefire to the conflict was negotiated in May 1994, a subsequent peace agreement has never been concluded between Armenia and Azerbaijan, leaving the status of Nagorno-Karabakh unresolved, and the surrounding districts under occupation. Without a final resolution to the conflict, the displaced people have been unable to return to their lands of origin, and have remained in a state of protracted displacement for a period of 20 years.

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B. Sectoral and Institutional Context

4. Currently, 597,180 people remain internally displaced in Azerbaijan, making it one of the highest concentrations of IDPs per capita in the world. IDPs live in 69 districts of Azerbaijan with the majority in urban settings particularly in the major urban centers of Baku and Sumgayit. The Government of Azerbaijan (GoA) policy towards this significant sector of the population has largely emphasized the right of IDPs to return to their lands of origin. There have been political concerns that a too strong focus on integrating IDPs into their places of displacement could be interpreted as weakening Azerbaijan’s position in regards to the occupied territories. While the IDPs remain displaced, however, the GoA assists them through numerous programs (outlined in a series of more than 70 Presidential decrees, 300 Government statements, legislative acts, and decisions on provisions for the displaced) intended to provide temporary support until they return. IDPs receive individual direct cash transfers, as well as an assistance package of subsidies and services. This assistance is managed by a designated Deputy Prime Minister who chairs a State Committee on IDPs and Refugees, and represents IDP issues in Azerbaijan’s Cabinet.

5. Over time however, as chances for the settlement of the conflict remain uncertain and the situation of IDPs has become one of long term protracted displacement, the Government has gradually modified its approach to addressing the needs of the displaced. The priority still remains the return of IDPs but more systematic investment is being made in their living conditions and economic opportunities in their temporary (but now long-term) places of residence. For example, in 2001, the GoA launched a comprehensive IDP housing plan, funded from the State Oil Fund, with the construction of new settlements for the relocation of IDPs living in the worst forms of housing. To date some 100,000 IDPs have moved into these new settlements, where many are also given access to agricultural land.

6. Yet challenges remain; IDPs continue to be a vulnerable group disadvantaged by their living in protracted displacement, which has negative impacts on their social and economic well being. Recent Economic and Sector Work (ESW) undertaken by the World Bank in cooperation with the GoA concludes that in general IDPs are more likely to be poor than the non-displaced, and suffer harder living conditions. Up to 50 percent of the IDPs currently live in collective centers (public buildings, dormitories) and temporary housing shelters, where conditions continue to be harsh due to insufficient investment in the improvement of this form of accommodation. The percentage of IDPs that have access to hot water, adequate sanitation, and electricity is significantly lower than the general population. IDPs are also disadvantaged with regard to access to quality services, and are less likely to rate services as being satisfactory than non IDPs.

7. The livelihood situation of IDPs poses a particular cause for concern. The findings of the ESW showed that IDPs have lower employment rates and higher work inactivity rates than the non-displaced. IDPs also possess few self-reliant income generating strategies and have a very

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high dependence on state transfers as their main source of income. Government assistance is the main source of income for 71 percent of IDP households with only 18 percent of IDP households claiming to rely primarily on income from informal, public, or private employment. Although IDPs seek alternative incomes in informal labor opportunities, petty trade, and agricultural production, they face a range of constraints including a lack of natural, financial, human, and social assets, which prevent them from securing sustainable livelihoods in these sectors. One particular livelihood constraint for IDPs is related to the fact that prior to their displacement they came predominantly from rural backgrounds but after displacement mainly settled into urban contexts and so have been unable to use their agricultural background skills to secure livelihoods in towns and cities.

8. The ESW also showed that the IDP population is affected by notable levels of anxiety, psycho-social distress, poor health, and social marginalization, feeling excluded from the opportunities of the non-displaced. In addition, the ESW revealed that the lives of women and youth appear to have been particularly affected by displacement. There is prevailing economic inactivity among women, who have become more confined to the domestic sphere than was the case in their places of origin. Female headed households are particularly vulnerable; the incidence of poverty among IDP female headed households is significantly higher than the incidence of poverty among male headed IDP households. By now a generation of young people have been born into and grown up in a situation of protracted displacement in Azerbaijan. Global experience shows that unless such young people are supported to adapt socially and economically there will be a tendency to inter-generational conflict and frustration.

9. World Bank and GoA partnership in assisting IDP communities in Azerbaijan goes back to the initial post-conflict period in the mid 1990s when the Bank provided a US$20 million IDA credit for reconstruction of areas temporarily occupied by Armenian forces during the conflict (The Pilot Reconstruction Project). A US$10 million equivalent Supplemental Credit was approved in June 1999 to support improvements in the living conditions of IDPs. In February 2005, the Bank approved the Azerbaijan IDP-Economic Development Support project (IDP-EDS, 2005 – 2008, US$11.5 million IDA Credit), followed by an Additional Financing (IDP-EDS AF, 2009 – 2011, US$15.0 million IDA Credit). One lasting outcome of this partnership was the creation of a project implementation unit, the Social Fund for Development of IDPs (SFDI), which will implement the proposed project.

10. The IDP-EDS Project and the subsequent IDP-EDS AF have been successful in meeting their Project Development Objective of improving IDP living conditions and enhancing their economic opportunities and prospects for social integration through demand-driven community based infrastructure and service micro-projects. To date, more than 400 micro-projects benefitting approximately 200,000 IDPs have been completed. The projects have included rehabilitation of key social infrastructure such as access roads, schools and community centers, improvements to IDP collective housing, extension of services infrastructure (sewerage/electricity), and other critical physical and social infrastructure improvements prioritized by communities. Most importantly, the project has involved IDP communities more closely in development planning and mobilized community members to identify needs and priority actions to address them.
11. The new project will build on the successful implementation arrangements and achievements of IDP-EDS. Investments will continue to be made in small micro-projects, where priority needs are identified by the IDP communities themselves. There is currently a back-log of more than 277 proposals for micro-projects received from IDPs across the country, showing that while progress has been made, there is still substantial demand from IDPs for service delivery and infrastructure improvement.

12. At the same time, the project will expand engagement with IDPs in two critical directions. First, there will be considerable investment in IDP housing accommodation. The project will focus on the rehabilitation of collective centers, selecting for investment those centers which provide technically, socially, and economically viable housing options for IDPs. The project will target IDPs who are not likely to be the beneficiaries of GoA housing programs, yet whose poor living conditions pose major constraints to their social and economic well being. Second, the project responds to the GoA priority to have greater emphasis on the pursuit of new IDP employment opportunities, which will enable IDPs to make a more significant contribution to the overall economy, and to reduce their dependency on government assistance. The project will invest in assets, technical assistance, and community mobilization that can facilitate IDP households making a transition away from high levels of dependence on state subsidies towards economic self reliance. The balance of funds in the project with the majority going towards infrastructure and services and less towards the livelihood support activities is justified by the findings of the ESW that: (a) physical living conditions remain the first concern for IDPs, and (b) improvements in IDPs livelihoods will be best delivered through lower cost, small scale community based initiatives requiring intensive technical support.

13. Throughout, the proposed project responds to the challenge of a situation of protracted displacement and aims to support the IDPs in ways that enhance their well being through improvement in living conditions, housing accommodation, and supporting beneficiary-driven livelihood strategies. This will facilitate sustainable social and economic activity for IDPs while displacement continues, and also build the resilience and abilities that will facilitate reintegration upon their possible return to their lands of origin. In all activities there will be emphasis on community involvement and mobilization so that project decisions, design, and responsibilities are given directly to IDPs to increase their empowerment and ownership over development decisions. In addition, at every opportunity, there will be attention given to building cohesion and social capital between IDPs and non-IDPs by including the non-displaced as beneficiaries and participants in the activities.

C. Higher Level Objectives to which the Project Contributes

14. The Country Partnership Strategy (CPS) for Azerbaijan for 2011-2014 is focused on achieving results in two key pillars: (i) building a competitive non-oil sector and (ii) strengthening human and social services with a cross-cutting filter for improving governance and institution-building across all activities. The CPS acknowledges the heightened poverty, economic, and social vulnerability of IDPs and the need to address this vulnerability through targeted interventions. In particular, the CPS recognizes the ongoing need to improve basic IDP livings conditions, but also highlights the need to foster their “more active participation in the labor market and self-reliance.”
15. The CPS specifically calls for improving governance and social accountability in IDP settlements, and engaging IDP community members in their own development. The proposed project responds directly to the CPS-endorsed priority by supporting IDP transitions into improved housing facilities with better infrastructure services, while extending community-driven governance mechanisms and finance to enhance social and economic infrastructure. In addition, to better address IDP resilience, the project introduces a new focus on supporting the development of sustainable livelihoods for IDPs. In this regard, the proposed project is cited in the CPS as the primary World Bank vehicle to address IDP living conditions in an integrated, sustainable, and community-driven manner.

16. The project aligns with shifts in GoA approaches to IDPs, which increasingly recognize that a long term situation where IDPs remain dependant on state subsidies and temporary housing provision is not an optimal development approach because it positions IDPs as passive and socially marginalized recipients of assistance rather than active and equal contributors to society and the national economy. Instead, the World Bank and GoA agree that an approach is needed that allows IDPs to enjoy economic opportunity, and social participation, and to achieve living conditions and income generation on a par with the non-displaced.

17. The project is designed to complement the Government of Azerbaijan State Program on IDP Housing. In 2001, the GoA launched an IDP housing plan, funded from the State Oil Fund, with the construction of new settlements for the relocation of IDPs living in the worst forms of housing. This program has been maintained through Presidential Decree No. 298, ‘State Program for the Improvement of Living Standards and Generation of Employment for IDP and Refugees 2005 – 2008’, and Decree No. 2475. ‘Amendments to the Decree №298, State Program on the Improvement of Living Conditions of Refugees and Internally Displaced Persons and Employment Promotion for 2008 – 2011’. As a result of these efforts, by the end of 2007, the last IDPs residing in tent camps and railway cars were moved into new settlements. Current ongoing resettlement activities are aimed towards IDPs living in dugouts, wooden ‘Finnish-type’ houses, unfinished constructions, school buildings, and some other categories living in harshest conditions. By June 2011, within the state resettlement programs, 63 settlements and 20 multi-storey apartment buildings have been constructed for about one hundred thousand IDPs and ten thousand refugees from Armenia. Presently, construction is ongoing for 29 multi-storey apartment buildings and one settlement for 552 individual houses for an additional ten thousand IDPs.

18. The project will contribute to the improvement of housing conditions for IDPs by targeting a different set of beneficiaries than the State Program. Instead of focusing on IDPs living in the worst conditions as does the State Program, the project will identify collective centers currently under occupancy by IDPs which, with cost effective renovation investments, offer IDPs an appropriate durable housing solution with satisfactory social and economic opportunities. This approach will allow IDPs to remain living in their current place of residence and continued access to employment and livelihood opportunities, which would be disrupted and lost through relocation into a new settlement. This will involve selection of IDP communities for whom a durable housing solution is one of the few remaining impediments to social and economic stability. At the current rate of implementation of the State Program this target group
of IDPs is unlikely to benefit from the State IDP Housing Program for another fifteen to twenty years.

II. PROJECT DEVELOPMENT OBJECTIVES

A. Project Development Objectives

19. The proposed Project Development Objective (PDO) is to improve living conditions and increase the economic self-reliance of targeted internally displaced persons. For the purposes of the project ‘living conditions’ are defined as the physical environment, including access to and quality of infrastructure, services and utilities (such as educational and health facilities, roads, electricity and water supplies) as well as housing conditions. ‘Economic self-reliance’ refers to the ability of IDPs to generate household income through self-driven efforts rather than through external assistance. The ‘targeted IDPs’ will be those selected as the beneficiaries of the project. It is anticipated that different components of the project will have different target beneficiary groups because the activities address different needs and vulnerabilities (see para 21 below). Targeted IDPs will be selected through the use of selection criteria and procedures outlined in Annex 2.

20. The PDO will be achieved through: (i) investments in infrastructure and services micro-projects, which are identified by IDP community members as their development priorities; (ii) rehabilitation of collective housing stock; (iii) investing in skills development, technical support and the provision of credit or grant start-up financing that provide opportunities for individuals and community groups to start new micro-enterprise through which IDPs can gain employment and generate their own income; and (iv) improving counterpart project management capacity to coordinate, plan, monitor, program and supervise a wide range of community driven activities. A cross cutting approach that will be applied in all project activities will be to build the social capital of IDPs. In this case ‘social capital’ is defined as the number of collective institutions or groups through which beneficiaries take action to improve their circumstances, the level of trust within members of those institutions and between groups, the level of diversity of group membership (age, gender, displaced: non-displaced) and the degree of social inclusion for those groups within the broader society.

1. Project Beneficiaries

21. IDPs will be the primary beneficiaries of the project. Because there is a range of circumstances in the IDP population, the project is designed so that each component will target a specific segment of IDP beneficiaries to ensure that distinct vulnerabilities present in the IDP population are effectively met. Wherever possible, project investments will extend benefits to the non-displaced who live in the same area as the displaced and will foster cohesion and social capital between these populations as they collectively choose and undertake project activities. Target beneficiary populations for each component can be summarized as follows:

(i) Funding infrastructure and services micro-projects: Beneficiary communities will be selected on the basis of a selection tool that prioritizes communities that are isolated, underserved, and have infrastructure/services that fall below national
standards. An estimated 200 micro-projects will reach a beneficiary population of between 120,000 – 150,000 of which at least 75% will be IDPs.

(ii)  *Rehabilitation of collective housing stock:* Criteria for selection of centers will assign priority to the technical/physical soundness of buildings, proximity to economic opportunities, services, and supporting infrastructure and opportunities for social inclusion for IDPs. Up to 95 collective centers will be renovated, reaching a beneficiary population of approximately 30,000 persons, of which at least 80% will be IDPs.

(iii)  *Enhancing IDP abilities to achieve self-reliant livelihoods:* Beneficiary communities will be selected on the basis of a high incidence of poverty and lack of self-reliant income generation; within communities, there will be a focus on IDP women. Under the Vocational Training subcomponent (a), 1,400 young people will receive vocational training and support in starting up their own business. Under the Income Generating Activity subcomponent (b), 200 Self-Help Groups will receive funding for income generating activities in total, reaching approximately 1,500 beneficiaries of which at least 80% will be IDPs and 70% will be women. Under the Micro-Credit subcomponent (c), approximately 1,500 micro-credit loans will be extended to IDPs to enable them to start-up or expand new businesses. At least 30% of loan recipients will be women.

2. **PDO Level Results Indicators**

22. Achievements of the proposed Project Development Objective, ‘to improve living conditions and increase the economic self-reliance of targeted IDPs’ will be measured through the following indicators: (i) changes in the access of targeted IDPs to good quality services, infrastructure and utilities (such as educational and community facilities, all weather roads and water and electricity supplies), (ii) changes in housing deficiencies in targeted collective centers (such as leakage and dampness, quality of windows and doors, and cleanliness of the environment) and, (iii) change in income sources of targeted households. The full outcome and intermediate indicators are specified in Annex 1.

23. Baseline data on indicators will be collected to facilitate the measurement of project impact. Because some of the activities under the components are demand-driven and will be defined during the course of the project, the collection of baseline data will also be incorporated into micro-project and other investment implementation cycles.

III. **PROJECT DESCRIPTION**

A. **Project Components**

24. *Component A: Micro-projects. Estimated total cost: US$15 million equivalent.* This component will continue activities conducted under the existing IDP EDS project, with the objective of improving the living conditions of IDPs through funding demand-driven small scale infrastructure and service projects. An estimated 200 additional micro-projects of average cost
US$70,000 will be funded. Micro-projects may include (a) repair or rehabilitation of basic infrastructure (e.g. water supply, power supply, access roads, drainage systems); and (b) repair or rehabilitation of social infrastructure such as schools and community centers. Community contributions will be set at 3% of total value for all micro-projects. It remains a community-level responsibility to ensure that contributions are collected equitably, which might include relief for vulnerable or low-income households. Continued communication campaigns will ensure that IDPs across Azerbaijan are aware of the opportunity to submit micro-project proposals and the selection criteria. The component will include ongoing support for the design, appraisal, and implementation of the micro-projects.

25. The criteria used to screen and prioritize micro-project proposals for approval and the scoring metrics have been updated to ensure targeting of communities of enhanced vulnerability, which have received fewer donor/government benefits, and have sub-standard housing and infrastructure relative to national and IDP standards. The criteria also include provision for funding of micro-projects that will enhance social cohesion between IDPs and non IDPs. The new criteria are included in Annex 2.

26. There is a pipeline of approximately 40 micro-projects totaling approximately US$2.5 million in value completed up to the design stage, for which there is insufficient funding under IDP EDS. This current pipeline of prepared micro-projects will carry over to LSLP. Furthermore, SFDI has a current backlog of over 277 micro-project proposals received subsequent to previous rounds of promotion and mobilization. A group of micro-projects totaling up to US$2.5 million in value will be identified from this existing pool of proposals for implementation under LSLP on the basis of the revised selection tool. All other micro-projects will be developed from a new pool of proposals solicited under new promotion and community mobilization procedures to be implemented after project effectiveness. Enhanced procedures for community mobilization will ensure greater participation and accountability of micro-projects. These procedures are discussed in greater detail in the social section of the PAD and Annex 2.

27. **Component B: Housing Renovation. Estimated total cost: US$ 33million equivalent.**
This component involves rehabilitation of IDP collective centers in a state of disrepair, where IDPs continue to live in poor conditions. The total number of IDP collective centers in urgent need of rehabilitation currently exceeds 190 facilities. It is proposed that up to 95 of such centers are selected for renovation under the proposed project. The project prescribes a strategic approach to selection of collective centers for rehabilitation, so that collective centers eligible for investment under the project are technically and socially viable and allow good economic opportunities for resident IDPs. The procedures and criteria by which collective centers will be selected are detailed in Annex 2.

28. The component is expected to support extensive repair of collective accommodations. In addition to improvement of common space areas (bathrooms, corridors, kitchens, etc.), the proposed scope of works will also include enhancement of structural features (such as sewerage, roofing and water systems) as well as improvement of conditions in individual apartments (e.g. replacement of windows, doors, electricity lines and in some cases floors) that will contribute more substantially to improved overall living conditions including safety and efficiency. The average cost of rehabilitation works for one collective center will be US$350,000. Community
contributions for dormitory rehabilitation will be set at 1% of the renovation costs and the threshold for dormitory renovations projects requiring approval by the Supervisory Board will be US$350,000.

29. It is predicted that the average recurrent maintenance costs for each dormitory will be US$1200/month. These recurring maintenance costs and arrangements will fall under the responsibility of the State Committee of Refugees (SCRI) and be aligned with the department responsible for maintenance of the IDP New Settlements.

30. **Component C: Livelihood Support. Estimated total cost: US$11 million equivalent.** Activities under this component will respond to the challenges of low levels of employment and income among IDPs and their continued high levels of dependence on state subsidies for household income. The component aims to increase economic opportunities and assets among IDPs and to encourage their pursuit of self-reliant livelihood approaches. The component will comprise three sub-components: (a) Youth Training and Business Development; (b) Income Generating Activities; and (c) Provision of Micro-Credit for IDPs.

31. **Youth Training and Business Development.** The first sub-component will scale-up activities piloted under the current IDP Youth Support Project (IDP-YSP) funded by a Grant from the Japanese Social Fund for Development, which have proven successful in improving the professional skills and employment prospects of young IDP people. Approximately 1,400 young people will be supported under the sub-component. Following the activities piloted under the IDP-YSP, the selected young people will receive training in a chosen vocation and undertake accreditation examinations to show that they have reached an acceptable standard of skill. If they pass, the young people will be provided business training to equip them with the knowledge to set up a small business and to write a business plan in their chosen vocation. Those young people who pass the business training and whose business plans are approved by a Selection Committee will receive financial support and ongoing technical advice to start up a small business in that profession.

32. **Income Generating Activities.** This sub-component represents a new undertaking for SFDI. The sub component will entail the establishment of approximately 200 small businesses and micro-enterprises to be collectively owned and managed by IDP groups. Target communities will be those with a high incidence of poverty, low employment rates, and high dependence on government subsidies as their main source of income. Within communities there will be a special focus on IDP women. Target communities will receive intensive community mobilization facilitation and be encouraged to form small self-help groups (SHG) to identify possible income generating activities (IGA). The selection of income-generating activities will be supported by detailed market analysis to ensure that demand for products/services exists and that sufficient net income is possible for the participating beneficiaries. Selected SHGs with a viable business plan for an IGA will register as local liability companies (LLC) and will open bank accounts, into which they will contribute savings worth 5% of the overall grant size. SHGs who have reached a required savings threshold will be supported with financial grants of not more than US$12,000 to start a new micro-enterprise. More details of the selection criteria and process for those SHG, which will receive grant funds are given in Annex 2. SHGs will continue to receive intensive technical support, particularly on the marketing of products from the micro-enterprise.
33. **Micro-credits.** This sub-component will build upon SFDI’s existing work in provision of micro-finance to eligible individual IDPs who wish to start or scale-up a business. It is proposed to extend a US$3 million line of credit to SFDI to be disbursed through up to 10 Credit Unions (CU), resulting in approximately 1500 small scale loans of average size US$1,900. Five of the CU will be existing partners of SFDI who have been pre-selected based on a due diligence assessment; they meet the eligibility criteria established in the World Bank’s Operational Policy OP8.30 on Intermediary Financial Institutions, and extend good geographical coverage for micro-credit provision across the IDP population. Additional partner CU will be identified through a new selection process undertaken six months after project effectiveness. Under the project, there will be a range of capacity building activities for CU to ensure their institutional strength and ability to meet client demand.

34. Where possible, links will be made across the project Components to ensure that possible livelihood opportunities afforded by activities in Components A and B are made available to beneficiaries of Component C. For example, young people who take up apprenticeships in vocational areas related to construction can be offered placements with contractors undertaking works in micro-projects and housing renovation.

35. **Component D: Project Management and Capacity Building.** **Estimated total cost: US$7 million.** This component will fund all items necessary to ensure SFDI’s proper implementation, coordination, and supervision of the project including staff positions, staff training, and capacity building and office assets such as vehicles and supplies.

36. To enhance the technical quality of implementation and effectively implement new elements of the project, SFDI will introduce a number of new positions within the PIU, including: increased numbers of staff to undertaken the technical appraisal and supervision of works; a strengthened community mobilization department; managers, and assistants for the new livelihoods component; an Environmental Specialist; and Monitoring and Evaluation Specialist. Staff capacity will also be increased through training and study tours particularly in the areas of community mobilization, livelihoods support and the proper supervision of CU activities.

B. **Project Financing**

1. **Lending Instrument**

37. World Bank financing will be provided in the form of an IBRD loan in the amount of US$50 million. A Specific Investment Loan (SIL) is the instrument to support this Project. The total cost of the project will be US$66.46 million (excluding VAT and front end fees) and US$78.42 million (including VAT). Contribution from the Government of Azerbaijan is to be up to US$28.5 USD to co-finance 25% of the project costs (about 16.6 million USD) and all the entailed VAT (about US$11.9 million). The project’s implementation period is 4 years. The Loan will be a US dollar denominated, flexible IBRD Loan with a fixed spread and a final maturity of 20 years including a 5 year grace period with repayments linked to commitments. The Recipient is the Government of the Republic of Azerbaijan represented by the Ministry of Finance.
2. Project Cost and Financing

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Project cost (net of VAT)</th>
<th>IBRD Financing</th>
<th>% Financing (net of VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Micro-projects</td>
<td>15.00</td>
<td>11.25</td>
<td>75%</td>
</tr>
<tr>
<td>2. Housing Renovation</td>
<td>33.10</td>
<td>24.83</td>
<td>75%</td>
</tr>
<tr>
<td>3. Livelihood Support</td>
<td>11.36</td>
<td>8.52</td>
<td>75%</td>
</tr>
<tr>
<td>5. Project Management</td>
<td>7.00</td>
<td>5.25</td>
<td>75%</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td><strong>66.46</strong></td>
<td><strong>49.85</strong></td>
<td><strong>75%</strong></td>
</tr>
<tr>
<td>Front-End Fees</td>
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<tr>
<td><strong>Total Financing Required</strong></td>
<td><strong>66.59</strong></td>
<td><strong>50.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

C. Lessons Learned and Reflected in the Project Design

38. The project’s design reflects a number of lessons learned from implementation of the preceding Bank project to support IDPs in Azerbaijan, as well as from international best practice for the sector. Key lessons include:

(a) **Community micro-projects require higher levels of mobilization and community participation.** The level of community mobilization in the preceding project has sometimes been insufficient due to an inclination to focus on technical quality and expedited implementation. The project will incorporate more systematic approaches to community mobilization in the design and implementation phases of micro-projects. This will involve selecting a number of target communities which will become the focus of intensive community mobilization support in carrying out Participatory Rural Appraisal exercises that will lead to the development of a local community development plan which will form the basis for developing future micro-project proposals.

(b) **Comprehensive renovation of collective housing should be linked to sustainable social and economic opportunities.** Comprehensive renovations of collective housing were in notable demand in the micro-projects of the previous project. The collective center rehabilitation component of the new project recognizes this need, but is designed to avoid protraction of unsustainable living arrangements, which contribute to the social and economic marginalization of IDPs. Therefore, isolated sites will not be eligible for this component. Rather, the beneficiaries of the housing renovation component are likely to be those proximate to larger urban centers offering services, infrastructure, and economic opportunities. In such areas (e.g. greater Baku area), the collective housing slated for comprehensive renovation would be among the best possible housing options in an otherwise highly competitive and expensive housing market. Further, the level of renovation for each housing center will be more comprehensive (not limited only to common areas as in the previous project) so as to enhance the sustainability of investments.
(c) Support for IDP livelihoods will need to focus on improving their asset levels as well as overcoming psycho-social constraints. Intensive ESW analytical and diagnostic work on IDP Livelihoods undertaken by the World Bank and GoA in 2010 revealed numerous constraints to IDPs in developing more lucrative self-reliant livelihood and income generating activities. They include low levels of professional skills, weak property rights, constrained access to credit, and low levels of collective action to address economic challenges. In addition, the investigation showed that IDPs are constrained by their attitude of dependency and expectation that the State will provide for them. They are also unwilling to take on the risks associated with economic self-reliance. These constraining attitudes are related to their overall sense of insecurity.

The project is designed to address these issues by increasing the assets of IDPs via skills training, technical support, and provision of financing. In addition, the project recognizes that IDPs may still be reluctant to start up their own micro-enterprises or seek more lucrative income options because of their psycho-social vulnerability. The project will therefore use a community mobilization model that has worked well in other settings to stimulate economic activity for vulnerable and risk-averse persons through intensive small scale local support. The model entails establishment of community groups who jointly contribute to a common fund. Such groups can develop collective saving practices and models of small scale economic cooperation. They can be supported with additional financing and technical advice to commence income-generating activities.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

39. The implementing agency will be the Social Fund for the Development of IDP (SFDI), which was set up in the late 1990s in collaboration with The World Bank. SFDI is a strong institution and has successfully implemented World Bank financed projects for the past 10 years including IDP-EDS and the IDP-EDS AF. SFDI is now the main agency responsible for all state funded IDP housing programs as well as several projects for IDP funded by other international donors. SFDI is directly accountable to the State Committee on IDP and Refugees (SCRI) and is supervised by a multi agency board including international representation. SFDI staff will be responsible for the majority of project management functions including fiduciary control, contracting, supervision, monitoring and evaluation, and community mobilization.

40. The new project will finance additional core and technical staff to provide specialized inputs that are not currently available in project structures and to ensure that all project activities are carried out effectively.

41. Some activities under Component C (Livelihood Support) are expected to be implemented through SFDI by partner agencies such as NGOs and Credit Unions. Implementing NGOs will be identified and selected through a competitive tender process, according to selection criteria outlined in the Project’s Operational Manual (OM). Partner Credit Unions are
selected on the basis of due diligence activities, as required under the World Bank’s policy OP8.30 on intermediary financial institutions. SFDI already has experienced working with partner agencies, as a number of NGOs were contracted to implement the pilot IDP Youth Support Project, and SFDI’s micro-finance program channels funds through partner Credit Unions. This relationship has resulted in the strengthening of the institutional capacity of these agencies and in the ability of SFDI to manage and supervise their work.

B. Results Monitoring and Evaluation

42. SFDI will be responsible for monitoring and evaluating the outcomes of the project against agreed indicators as set out in the Results Framework. The Result’s Framework will include World Bank core indicators, quantitative measurements of project outputs, and qualitative measures based on beneficiaries own perceptions and experiences of project impacts. The indicators for results under the Component C (Livelihood Support) are being developed together with the Global Program on Displacement in the Social Development Department of the World Bank to ensure that they align with initiatives to create standard global definitions for the measurement of increasing economic opportunities for displaced persons.

43. A fair level of data already exists in Azerbaijan on IDP living standards, access to services and infrastructure, and levels of poverty and employment. Such data will be collated for the purposes of setting the baseline information for the project. These data will be added to through the conduct of a baseline survey undertaken at the commencement of the project. However since many of the activities under the project are demand-driven, it is not possible to know sector investments in advance. Thus, the collection of baseline data for these community-based sectoral investments will be incorporated into the micro-project cycle throughout the life of the larger project.

44. A project specific monitoring and evaluation (M&E) system will be developed, with corresponding data collection schedules, formats, and Project Management Information System (PMIS). Project financing under Component D will cover the costs of maintaining this M&E system as well as the conduct of the baseline survey, mid-term, and end of project impact assessments. In addition, SFDI will increase their staff capacity for M&E through the recruitment of an M&E Manager position. Where project activities are undertaken by implementing partners, SFDI will supervise the quality, reliability, and timeliness of their data collection.

C. Sustainability

45. Each project component has been designed on the basis of achieving outcomes that will continue to assist existing and new beneficiary populations beyond the project’s implementation period. The overall community-driven orientation of the project, in particular, stresses the importance of community decision-making to ensure community awareness of and commitment to the future upkeep and maintenance of investments.

46. Successful micro-project applications under the project require demonstration of a 3% cash community contribution to the services or infrastructure proposed. This community
commitment, levied across households with consideration of socioeconomic capacity, will
demonstrate the community’s commitment to sustain the investment they have selected as a
priority. Each micro-project will have a community committee, who will take on responsibility
for the ongoing upkeep of the micro-project. Micro-project assets will be transferred to the
authority of IDP community committees and, where appropriate, to local authorities/government
on the basis of handover agreements. These agreements outline operational and maintenance
responsibilities. SFDI also prioritizes ‘dual use’ investments facilitating support from local
government authorities.

47. As with micro-projects, the renovation of residential collective centers will require a
community contribution, one percent in the case of this component, which demonstrates a
commitment to community involvement in recurrent operations and maintenance obligations.
The comprehensive nature of renovation provided for by the component will facilitate greater
sustainability commitments because individual housing units will benefit from efficiency and
safety enhancing upgrades such as hermetically-sealed doors and windows and safe electric
wiring. Beside this, the project will establish a fully formalized system for collective center
maintenance, with the clarification of upkeep roles and responsibilities with the state institutions
who own the buildings and with the State Committee for IDPs and Refugees who is responsible
for all IDP housing issues.

48. The livelihoods component is explicitly designed around sustainability objectives.
Vocational/technical training for youths will lead to specialized capacities for generating
incomes that extend beyond the term of the project. The training provided will be carefully
matched with market demands and absorption capacity, after the completion of market demand
surveys. The Self-Help Groups (SHGs) will provide seed funds to small community-based
enterprises that foster sustainable entrepreneurship that can ultimately generate the required
capital to expand and continue beyond initial grant support. An initial in-kind group savings
contribution will ensure beneficiary ownership of their proposed initiatives and foster sustained
involvement. Ongoing technical support to SHGs around the marketing of products will increase
the likely profitability of the micro-enterprises. Likewise, the repayment rate from past micro-
credit rates is high, resulting in self-replenishing funds that can resource multiple beneficiaries
beyond the initial project period.

V. KEY RISKS AND MITIGATION MEASURES

49. Despite the potential high impact of the identified risks (as identified in the ORAF), their
likelihood of occurring is considered to be low due to a range of strong mitigation measures and
the fact that the new project builds upon existing relationships with the Government and the
competencies of a strong implementing agency.

50. One risk for the project relates to the high level of politicization of the displacement issue
in Azerbaijan, and the prevailing focus on IDP return rather than support for IDPs in their places
of temporary residence. However differences in political and development perspectives on the
status and support given to Azerbaijan’s IDP have not had an impact on the previous Bank-
financed IDP projects. Indeed, significant development results for IDPs have been achieved. The
risk of conflict between the government’s commitment to return versus the development objectives of sustainable living standards for IDPs has been effectively managed for 12 years, and this is likely to continue under the new project. In fact, the government at all levels has demonstrated an increasing commitment to enhancing IDP self-reliance with strong support for the introduction of the Livelihood Support component to the Bank project.

51. Despite a few risks emerging from a centralized management structure and the shortage of specialized skills for facilitating community involvement among staff, SFDI has proven to be a highly competent implementing agency with strengths in infrastructure design, construction, and supervision. The technical quality for previous micro-projects and their degree of sustainability has been high and it is unlikely that the larger scale of rehabilitation works for collective centers will pose an unmanageable task. Even the new livelihood directions will build upon SFDI’s previous work and management capacity in micro-finance and vocational training for young people. The potential risk of a lack of commitment to principles of community mobilization and development has already been addressed through continued Bank attention to and supervision of community roles in the micro-project cycle. This emphasis on community participation will be maintained and supported with staff recruitment and training to continue to improve competencies in this field.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

52. The overall project net present value (NPV) is estimated at US$80.5 million with overall economic rates of return (ERR) of 32%. The internal rate of return (IRR) of project’s financial cash flows is estimated to yield an IRR of 23%, accounting for proportionally greater financial cash outflows for capital expenditures, recurrent costs and, negligibly, for tax receipts. The following assumptions were used to make these calculations: (i) the useful life of the project is estimated at 15 years, (ii) the residual value of social and economic infrastructure at the end of project life is assumed to be zero, (iii) the marginal cost of temporary housing is estimated to increase by 10% annually in years 11-15 of useful life, (iv) environmental impacts are considered negligible and are not quantified for this analysis, (v) the opportunity cost of capital used for calculating NPV is 12%, (vi) USD 2010 constant prices are used for the estimates, (vii) taxes and subsidies are excluded in the economic evaluation of the project, and (viii) tax payments have been included in the analysis of financial flows.

53. The sensitivity analysis investigated the effect on overall NPV and ERR for the project related to decrease in net projects benefits and project delays. The inflation rate and default rates of the micro-credit line will likely to have effect on the NPV of this subcomponent of the Component C but the estimates are difficult to account for at this stage. The 20% fall in the project benefits will push the ERR down to 25% and NPV down to US$50.4 million. Two year project delay will bring the ERR of the project down to 20%.

54. A number of substantial intangible, but unquantifiable benefits would increase project value but attempts to estimate the economic and financial benefits for these have not been made.
These unquantifiable benefits include a range of psycho-social benefits, greater self-reliance and empowerment of IDPs, and increased social capital. In addition, improved management capacity, IDP community skills of strategic planning, and group business development will lay foundations for further investments. These benefits, while intangible, will contribute to longer-term economic productivity of both the individual IDPs and the created enterprises.

B. Technical

55. Under the IDP-EDS, micro-project investments have generally been of very good quality, both in terms of design and physical works execution, and in accordance with national technical standards. This quality has been achieved by the selection of qualified and competent contractors to design and implement works, adherence to thorough appraisal procedures to select micro-projects which are technically viable, and intensive on-site supervision both by SFDI and the World Bank resulting in the quick identification and remedy of deficiencies. These practices will all be continued under the proposed project. In addition, community involvement in technical issues will be encouraged through IDP participation in the design of investments and in appraisal practices, this will ensure that IDPs are in support of and able to maintain the technical options taken.

56. Investments under Component B (Housing Renovation) are of a greater scale than previous micro-projects and will require strong technical input to ensure that IDP accommodation meets adequate housing standards. During project preparation, a thorough technical and social appraisal was undertaken of the proposed collective centers for renovation to ensure that those chosen for investment are structurally sound and have adequate conditions for sustaining the improvement works.

C. Financial Management (FM)

57. The SFDI will be responsible for FM arrangements. The FM arrangements in SFDI for the implementation of IDP EDS have continually been assessed as satisfactory. The latest FM supervision reports indicate that Accounting and Internal Control systems of the SFDI are reliable and effective. FM staffing arrangements of the SFDI are also assessed as adequate. The SFDI will continue to use these arrangements for the proposed new Project. The SFDI fully complies with the audit requirements of the IDP EDS. Similar to IDP EDS, under the new project independent auditors will audit project as well as SFDI financial statements under terms of reference acceptable to the Bank and in accordance with International Standards on Auditing (ISA). The SFDI will submit quarterly Internal un-audited Financial Reports (IFRs) covering one quarter, format and content of which have been agreed with the SFDI.

D. Procurement

58. A procurement assessment carried out during the pre-appraisal and appraisal for the new project identified three potential risks: (i) attempts of administrative intervention in procurement and selection under the project funded sub-projects; (ii) the procurement environment may be affected by problems related to weak governance and corruption; and (iii) because Component C (Livelihood Support) involves community based procurement, addressing procurement issues may create challenges due to lack of capacity at that level. The overall project risk for
procurement is considered substantial. Risk mitigation measures discussed and agreed with SFDI during the project appraisal are included in the project operational manual.

59. The assessment also concluded that due to their previous involvement in IDP EDS, SFDI staff are familiar with Bank procurement procedures and have acquired the adequate experience and capacity to carry out procurement activities related to the proposed project. The procurement plan for the first eighteen months of the project was reviewed and confirmed during project Negotiations. It will be updated at least annually (or as required) to reflect project implementation needs. The procurement under the livelihood component will be done by the community under the monitoring and guidance of a Technical Assistance consultant, which will be an NGO, selected as per the Bank Guidelines.

E. Social (including safeguards)

60. The findings of the ESW on IDPs revealed numerous social challenges among the population. The study showed that IDPs suffer from psycho-social distress; they are depressed and often hopeless about their situation due to the uncertainty and insecurity of their status. The population is marked by high levels of dependency and low expectation of their own ability to solve their problems. There are low levels of social mobilization and collective action among IDPs with few social institutions. IDPs also feel socially marginalized and disadvantaged by their lack of connections with the non-displaced population.

61. The project is designed to address these issues and to have positive social impacts on the targeted IDP beneficiaries. The social impacts of the small scale infrastructure and service micro-projects can be considerable because facilitating communities working together and making development decisions benefits overall social relations and psychosocial well-being. Livelihood initiatives will foster self-reliance and independence among beneficiaries who have previously been fully dependent on state assistance. To avoid local conflict and facilitate inclusion, project benefits, specifically with respect to micro-projects and livelihoods initiatives, will be extended to the host communities of IDP beneficiaries.

62. Specific attention will be placed on the selection of beneficiaries according to vulnerability and distinct needs. This will be achieved by the use of clear and transparent selection criteria for livelihood initiatives and micro-projects. The selection criteria established for micro-projects and livelihoods initiatives prioritize those communities with inadequate access to services and infrastructure, ensuring that underserved beneficiaries will be well represented within the project’s beneficiary population. At the community level, emphasis will be placed on the representativeness of community structures and the overall community mobilization process, as well as inclusion of women and other marginalized groups.

63. Additional community mobilization procedures will also be added gradually over the course of implementation to strengthen the community-driven model emphasized by the project. A number of target communities will be the focus of more intensive community mobilization support, based on Participatory Rural Appraisal exercises, leading to the development of local community development plans, which will form the basis for future micro-project proposals. Additional procedures will be added to make plenary community meetings more inclusive and
participatory; these will include enhanced procedures to more effectively present preliminary micro-project technical designs for community appraisal prior to implementation. The goal of such measures is to strengthen community commitment to local infrastructure, physical improvements, and livelihood measures in a manner that contributes to sustainability.

64. There are no involuntary resettlement or land acquisition issues raised by the project and therefore OP4.12 is not triggered. Works under the project will only involve the rehabilitation of existing infrastructure, services and housing, and no increase in the land footprint of the original designs. The Environmental Management Plan Framework (EMPF) contains a screening tool that will ensure that micro-projects and housing renovations that would involve land acquisition or involuntary resettlement are excluded from investment under the project. The proposed replacement of flooring within the apartments of IDPs may require some temporary relocation of dormitory residents, while the rehabilitation is ongoing. SFDI has previous experience of making temporary relocation arrangements for IDP residents of collective centers in conjunction with local authorities and will draw upon this precedent to arrange temporary accommodation for affected families, with minimum adverse impacts on their well being. Mechanisms for organizing the temporary relocation and ensuring the satisfaction of IDPs during this process will be outlined in the OM. Given that the relocation of residents will only be temporary and does not involve land acquisition the mission concluded that this risk did not require a trigger of OP 4.12.

F. Environment

65. Environmental Assessment. The project will not pose any significant adverse environmental concerns. Instead, based on the experience under the IDP EDS, it is anticipated that positive environmental impacts will result, particularly in the case of upgraded water supply and sewerage systems investments, rehabilitated community facilities, and better waste management systems in beneficiary settlements. The potentially adverse environmental impacts of this project are mainly associated with the implementation of civil works, and include, inter alia, dust, noise, soil and water pollution, generation of waste materials, waste disposal (including medical waste), and damage to soil by excavation works.

66. The potential negative environmental impacts trigger the Operational Policy OP 4.01. However, these impacts are minor and can be prevented or minimized through appropriate preventive actions and mitigation measures. Therefore, the project is classified as environmental category ‘B’, requiring partial assessment and an EMPF, which establishes a screening mechanism and governs the process of developing and implementing specific mitigation plans for each investment under the project. The EMPF for the IDP EDS was updated by the Borrower to address impacts from the newly proposed activities under Components B (Housing Renovation) and Components C (Livelihood Support) where they differ from IDP EDS. The EMPF also provides environmental screening criteria for determining the eligibility of proposed investments being financed under the project. The updated EMPF was publicly disclosed by the Borrower and discussed with the stakeholders in May 2011.

67. During the implementation of the original IDP-EDS the SFDI staff has demonstrated satisfactory safeguard performance and developed strong capacity in Bank safeguard policies and procedures. The PIU engineer who was responsible for the supervision of both preparation
and implementation of micro-projects coordinated with design companies for the preparation of site-specific environmental management plans (EMPs) and ensured that contractors were contractually obliged to implement mitigation measures identified at the design phase. The implementation of micro-projects was closely monitored by the PIU for environmental compliance. This resulted in satisfactory environmental performance throughout the project life. The project will build upon this existing implementation experience, and sufficient project resources will be allocated to SFDI staff to maintain and enhance skills in safeguard actions. SFDI will continue to use the existing safeguard guidelines and manuals including the Environmental Management Plan Framework (EMPF) and relevant sections of the Operational Manual (OM), which were developed under IDP-EDS and was updated for the purposes of the new project. In order to enhance in-house capacity to deal with more diverse micro-projects, SFDI will recruit a dedicated Environmental Specialist who will be responsible for overall environmental management of the project and its compliance with the EMPF provisions, and will deal with specific micro-project issues.

G. Other Safeguards Policies triggered

68. **Projects in International Waters.** As was the case with the IDP EDS, the proposed project will support activities such as the rehabilitation of drainage systems, water supply improvement, and wastewater treatment. Such activities might be developed, *inter alia*, on rivers flowing into the Caspian Sea and transboundary rivers, which are international waterways for the purposes of the World Bank Operational Policy on Projects on International Waters (OP 7.50). However, eligible investments will only involve repair and rehabilitation of existing schemes, and will not involve new construction. As such, the proposed interventions are not expected to produce a noticeable change with regard to the abstraction of water, and would not have an adverse impact on the quality or quantity of river flows. Therefore while OP7.50 is triggered, in May 2011 the Regional Vice President approved an exception to the notification requirements under OP7.50 for the proposed project.
Annex 1: Results Framework and Monitoring

AZERBAIJAN: Internally Displaced Persons Living Standards and Livelihoods Project

Results Framework

**Project Development Objective (PDO):** to improve living conditions and increase the economic self-reliance of targeted internally displaced persons (IDP).

<table>
<thead>
<tr>
<th>PDO Level Results Indicators*</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values**</th>
<th>Frequency</th>
<th>Data Source/ Methodology</th>
<th>Responsibility for Data Collection</th>
<th>Description (indicator definition etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indicator One:</strong> # of direct project beneficiaries of which female %</td>
<td># Y</td>
<td>0</td>
<td></td>
<td>30,000 50% 92,000 50% 138,000 50% 185,500 50%</td>
<td>Quarterly</td>
<td>Beneficiary registration records in project activity application forms</td>
<td>SFDI</td>
<td>A beneficiary is defined as a person directly using the project investment</td>
</tr>
<tr>
<td><strong>Indicator Two:</strong> changes in access to services, infrastructure and utilities</td>
<td>%</td>
<td></td>
<td></td>
<td>30% improvement on baseline figure at community level 30% improvement on baseline figure at community level 30% improvement on baseline figure at community level 30% improvement on baseline figure at community level</td>
<td>Annually</td>
<td>Community specific, sector specific baseline data to be collected during micro-project appraisal process and outcome data to be collected during community evaluation event.</td>
<td>SFDI</td>
<td></td>
</tr>
<tr>
<td>- increase in access to all weather and/or rural roads</td>
<td>%</td>
<td></td>
<td></td>
<td>Available national data on the current conditions are as follows: Access to 12-24 hour water among IDPs = 48.2% Access to 24 hour electricity among IDPs = 41.1% Baseline data for the target beneficiaries and for other indicators will be collected during a baseline survey upon project effectiveness and during micro-project selection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- increase in access to 24 hour water</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- increase in access to 24 hour electricity</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- increase in access to health and education services</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- increase in access to community facilities</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Indicator Three:</strong> changes in housing deficiencies</td>
<td>%</td>
<td></td>
<td></td>
<td>75% improvement in collective center 75% improvement in collective center 75% improvement in collective center 75% improvement in collective center</td>
<td>Annually</td>
<td>Community specific baseline data to be collected during collective center appraisal process and outcome data to be collected during community evaluation event.</td>
<td>SFDI</td>
<td></td>
</tr>
<tr>
<td>- % decrease in hh suffering from dampness</td>
<td>%</td>
<td></td>
<td></td>
<td>Baseline conditions will be assessed once the collectives centers for renovation are selected</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- % increase in hh with energy efficient doors and windows</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- % increase in access to 24 hr water</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- % increase in access to 24 hr</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Indicator Four:** % of targeted beneficiaries whose main source of household income is self generated.

| % | 15% | - | - | 25% | 25% | Bi-annually | Selection process for beneficiaries under Component C will include analysis of their sources of hh income, outcome data to be collected during activity evaluation event | SFDI, PLY, NGOs |

Self generated income is defined as that created by the efforts of beneficiaries rather than received as external assistance. Due to the nature of changes in hh income sources, impacts of project activities on hh income are not expected to be evident until Y3 and Y4 of the project.

### INTERMEDIATE RESULTS

**Intermediate Result (Component One): Improved access to and quality of infrastructure and services for targeted IDPs**

**Outcome Indicators**

| Increase in beneficiaries rating access to service/utility/infrastructure as good | % | Available national data on the current conditions are as follows: % of IDPs rating access to electricity as good = 37.8 % of IDPs rating access to water as good = 22 % of IDPs rating access to sewage as good = 40.7 % of IDPs rating access to heating as good = 16 Baseline data for the target beneficiaries and for other indicators will be collected | 30% improvement on baseline at communi ty level | 30% improvement on baseline at commuinity level | 30% improvement on baseline at commuinity level | 30% improvement on baseline at commuinity level | Quarterly | Data to be collected during micro-project appraisal process and outcome data to be collected during community evaluation event. | SFDI |

Likely service/infrastructure/utility investments will be: community facility, 24 hr electricity/hot water/sewerage, all weather road.
## Increase in beneficiaries rating quality of service/utility/infrastructure as good

| % Increase in beneficiaries rating quality of service/utility/infrastructure as good | % | Available national data on the current conditions are as follows: % of IDPs rating quality of health care as good = 19.6 % of IDPs rating quality of education as good = 26.8 Baseline data for the target beneficiaries and for other indicators will be collected during a baseline survey upon project effectiveness and during micro-project selection | 30% improvement on baseline at community level | 30% improvement on baseline at community level | 30% improvement on baseline at community level | 30% improvement on baseline at community level | Quarterly | Data to be collected during micro-project appraisal process and outcome data to be collected during community evaluation event. | Likely service/infrastructure investments will be: community facility, school, 24 hr electricity/hot water/sewerage, all weather road. |

## Output Indicators

### # and type of completed micro-projects

| # of people provided access to service/utility/infrastructure | # | 0 | 40 | 80 | 130 | 200 | Quarterly | SFDI micro-project completion tracking system | SFDI | Micro-project is defined as a small scale investment that meet the criteria outlined in the OM |

| # of people provided access to service/utility/infrastructure | Y | # | TBD: due to the demand driven nature of the project it is not possible to establish a-priori what sectoral investments will be made, nor to establish overall project baseline or targets. | TBD | TBD | TBD | Quarterly | SFDI micro-project hand-over format | SFDI | Likely service/infrastructure investments will be: access to community facility, access to school, access to 24 hr electricity/hot water/sewerage, access to all weather road. |

## Intermediate Result (Component Two): Improved housing conditions for targeted IDP

### Outcome Indicator

| % increase in targeted beneficiaries rating housing | % | TBD during baseline process once beneficiaries selected | 40% improvement on | 40% improvement on | 40% improvement on | 40% improvement on | Annually | Data to be collected during | SFDI | Once collective centers have been chosen for |
Conditions as good.

<table>
<thead>
<tr>
<th>Output Indicator</th>
<th># collective centers having full scale renovation</th>
<th># of people provided with improved sanitation/access to electricity/window and door insulation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>10 35 50 95 Quarter yearly</td>
<td>SFDI micro-project completion tracking system</td>
</tr>
<tr>
<td></td>
<td>SFDI</td>
<td>SFDI Collective centers is defined as accommodation providing long term temporary accommodation to IDPs</td>
</tr>
</tbody>
</table>

**Intermediate Result (Component Three): Increased household income for targeted IDPs**

**Outcome Indicator**

<table>
<thead>
<tr>
<th>Amount of monthly household income</th>
<th>AZN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average across all targeted hh to be determined in baseline selected once beneficiaries selected</td>
<td>-</td>
</tr>
<tr>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>20% increase at hh level</td>
<td>20% increase at hh level</td>
</tr>
<tr>
<td>Bi-annually</td>
<td>Beneficiary selection criteria survey and progress monitoring reports</td>
</tr>
<tr>
<td>NGOs and PLI</td>
<td>Due to the nature of changes entailed, impact of project activities on hh income are not expected to be evident until Y3 and 4 of the project.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th># of targeted beneficiaries who gain employment</th>
<th>#</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment is defined as officially registered in a place of work</td>
<td>50</td>
</tr>
<tr>
<td>500 2000 1000 2000 Annually</td>
<td>Progress monitoring reports</td>
</tr>
<tr>
<td>NGOs and PLIs</td>
<td>Assets will include financial assets – access to credits/loans and grants – skills assets – access to professional</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Output Indicator</th>
<th># and type of assets acquired by IDP as a result of the project</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>#</td>
</tr>
<tr>
<td></td>
<td>50 2000 3500 5500 Anually</td>
</tr>
<tr>
<td></td>
<td>SFDI Collective centers is defined as accommodation providing long term temporary accommodation to IDPs</td>
</tr>
</tbody>
</table>

Investment under the project, residents will be asked to evaluate their housing conditions.
### Intermediate Result (Social Capital): Increased social capital within IDP communities and between IDP and non IDP communities

#### Outcome indicator

<table>
<thead>
<tr>
<th>% of targeted beneficiaries who feel able to influence development decisions</th>
<th>%</th>
<th>Tbd during baseline survey once beneficiaries are selected.</th>
<th>-</th>
<th>-</th>
<th>20% increase on baseline</th>
<th>20% increase on baseline</th>
<th>Bi-annually</th>
<th>Baseline to be collected during appraisal and selection processes and outcome data to be collected during community evaluation event.</th>
<th>SFDI, NGOs</th>
<th>Due to slow rates of change in social capital, impact of project activities are not expected to be seen until Y3 and Y4 of the project.</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of targeted beneficiaries who feel socially excluded in the wider society</td>
<td>%</td>
<td>Tbd during baseline survey once beneficiaries are selected.</td>
<td>-</td>
<td>-</td>
<td>10% decrease on baseline</td>
<td>10% decrease on baseline</td>
<td>Bi-annually</td>
<td>Baseline to be collected during appraisal and selection processes and outcome data to be collected during community evaluation event.</td>
<td>SFDI, NGOs</td>
<td>Due to slow rates of change in social capital, impact of project activities are not expected to be seen until Y3 and Y4 of the project.</td>
</tr>
<tr>
<td>% of targeted beneficiaries whose social map of trusted relations includes non IDP as well as IDP</td>
<td>%</td>
<td>Tbd during baseline survey once beneficiaries are selected.</td>
<td>-</td>
<td>-</td>
<td>10% increase on baseline</td>
<td>10% increase on baseline</td>
<td>Bi-annually</td>
<td>Baseline to be collected during appraisal and selection processes and outcome data to be collected during community evaluation event.</td>
<td>SFDI, NGOs</td>
<td>Due to slow rates of change in social capital, impact of project activities are not expected to be seen until Y3 and Y4 of the project.</td>
</tr>
</tbody>
</table>

#### Output indicator

| # of new social institutions formed under the project | # | 0 | 40 | 100 | 350 | 400 | Quarterly | Project progress reports | SFDI | A social institution is defined as a community |
| # of members of social institutions (% women, youth, non-displaced) | # | 0 | 400 | 2000 | 3000 | 4500 | Quarterly | Project progress reports | SFDI | Youth is defined as someone between the ages of 14 and 25 |

*Please indicate whether the indicator is a Core Sector Indicator (see further [http://coreindicators](http://coreindicators))

**Target values should be entered for the years data will be available, not necessarily annually.
Annex 2: Detailed Project Description

1. The project components and activities are designed to contribute to the achievement of the Project Development Objective to improve living conditions and increase the economic self-reliance of targeted internally displaced persons (IDP). Activities under each component are described in detail below.

2. **Component A: Micro-projects. Estimated total cost: US$15 million equivalent.** This component will continue activities conducted under the existing IDP EDS project, with the objective of improving the living conditions of IDPs through funding demand-driven small scale infrastructure and service projects identified and prioritized by communities through participatory methods. An estimated 200 additional micro-projects will be funded. Micro-projects may include (a) repair or rehabilitation of basic infrastructure (e.g. water supply, power supply, access roads, drainage systems); and (b) repair or rehabilitation of social infrastructure such as schools and community centers. Continued communication campaigns will ensure that IDPs across Azerbaijan are aware of the opportunity to submit micro-project proposals and the selection criteria. The component will include ongoing support for the design, appraisal, and implementation of the micro-projects.

3. The criteria used to screen and prioritize micro-project proposals for approval and the scoring metrics have been updated to ensure targeting of communities of enhanced vulnerability, which have received fewer donor/government benefits, and have sub-standard housing and infrastructure relative to national and IDP standards. The criteria will also give weight to micro-project applications that encourage cohesion between IDPs and non IDPs. The new criteria are included later in this annex.

4. The pipeline of micro-projects for funding under the project will be determined in three stages: (i) 40 micro-projects which were prepared and appraised under the IDP EDS project for which implementation funds are not available, will be transferred for implementation under LSLP project, the total amount of these micro-projects will not exceed US$2.5 million; (ii) the new selection tool will be applied to the significant backlog of micro-project proposals received (totalling 277) under IDP EDS from which a group of micro-projects up to a total value of US$2.5million will be chosen for implementation; and (iii) a new set of micro-project proposals will be generated on the basis of enhanced community mobilization procedures to be mainstreamed into the micro-project cycle. These new proposals will be subject to review against the selection criteria.

5. The component will adopt enhanced community mobilization and participation in the preparation of micro-project proposals and management of micro-project implementation. A number of target communities will be the focus of intensive community mobilization support including Participatory Rural Appraisal exercises leading to the development of local community development plans, which will form the basis for future micro-project proposals. Details on the enhanced community mobilization procedures and the selection of target communities are incorporated in the Operational Manual (OM). The current practice of having a community design appraisal event will be continued for all micro-projects to ensure design companies...
consult with and incorporate feedback on the micro-project design from IDP beneficiaries. New procedures to improve the quality of these events are included in the OM, including the use of simple design schemes and public postings of design information to broaden beneficiary awareness of the micro-project plans and improve the ability of community member to contribute more tangibly to the modification of design specifications prior to micro-project execution.

6. **Component B: Housing Renovation. Estimated total cost: US$33 million equivalent.** This component will directly contribute to the PDO by addressing the living conditions of IDPs who live in non-renovated collective centers. It involves rehabilitation of IDP collective centers in a state of disrepair, where IDPs continue to live in poor conditions. Under IDP-EDS the rehabilitation of collective centers was a high demand from IDP communities but the scope of implemented works was limited due to its micro-project orientation. At the same time, the renovation of collective centers is not the focus of the Government program to improve IDP housing, where the focus of State Oil Funding is currently directed to the construction of new settlements for IDPs living in the worst conditions.

7. The total number of IDP collective centers in urgent need of rehabilitation currently exceeds 190 facilities. It is proposed that up to 95 of such centers are selected for renovation under the proposed project. The project prescribes a strategic approach to selection of collective centers for rehabilitation, so that collective centers eligible for investment under the project are technically and socially viable and allow viable economic opportunities for resident IDPs. For the target group of beneficiaries under this component, sustainable housing stock may be the last substantial obstacle to their social inclusion and economic self-reliance given that they already live proximate to urban centers with good opportunities for employment or entrepreneurship. The selection tool reflecting procedures and criteria by which collective centers will be selected is presented later in the annex.

8. The component is expected to support the fuller scale renovation of collective accommodations going beyond the basic common area rehabilitations previously covered as micro-projects under IDP-EDS. In addition to improvement of common space areas (bathrooms, corridors, kitchens, etc.), the proposed scope of works under the new project will also include enhancement of structural features (such as sewerage, roofing and water systems) as well as improvement of conditions in individual apartments (e.g. replacement of windows, doors, floors and electricity lines) that will contribute more substantially to improved overall living conditions including safety and efficiency. Based on a thorough engineering assessment undertaken during project appraisal and experience from the IDP EDS project it is predicted that the average cost of works per collective center will be US$350,000.

9. A long list of collective centers meeting the criteria for preliminary selection, together with underlying data, has been presented for the Bank’s no-objection. Review of this list during project appraisal confirmed that in general the information on the list is accurate and chosen centers on the long list are not under private ownership, are located so that they adhere to national standards on access to health and education facilities, are free from environmental and pollution risks and have a suitable expected structural life span to justify and sustain renovation works. A consultant firm will prepare a feasibility study for rehabilitation of pre-selected
collective centers. The final list of eligible collective centers together with relevant justification will be submitted for the World Bank’s no-objection by the end of September 2011 prior to project effectiveness. In addition, collective center rehabilitation works of over US$350,000 will require approval of SFDI’s Supervisory Board.

10. **Component C: Livelihood Support. Estimated total cost: US$11 million equivalent.** Activities under this component will respond to the challenges of low levels of employment and income among IDPs and their continued high levels of dependence on state subsidies for household income. This will contribute to the PDO goal of improving the economic self-reliance of targeted IDP communities. The component involves some new initiatives not previously undertaken in the preceding projects, with the exception of micro-credit and has, therefore, been the subject of focussed and systematic preparation to ensure the appropriate new structures are in place within the implementation framework of the new project. The component aims to increase economic opportunities and assets among IDPs and to encourage their pursuit of self-reliant livelihood approaches. The component will comprise three sub-components: (i) Youth Training and Business Development; (ii) Income Generating Activities; and (iii) Provision of Micro-Credit for IDPs.

11. **Sub-component 1: Youth Training and Business Development.** This sub-component will scale-up activities piloted under the current IDP Youth Support Project (IDP-YSP) funded by a Grant from the Japanese Social Fund for Development, which have proven successful in improving the professional skills and employment prospects of young IDP people. Approximately 1400 young people will be supported under the sub-component. Following the activities piloted under the IDP-YSP, the selected young people will receive training in a chosen vocation and undertake accreditation examinations to show that they have reached an acceptable standard of skill. If they pass, the young people will be provided business training to equip them with the knowledge to set up a small business and to write a business plan in their chosen vocation. Those young people who pass the business training and whose business plans are approved by a Selection Committee will receive financial support and ongoing technical advice to start up a small business in that profession.

12. The sub-component will be implemented by a partner implementing agency (PIA) selected through a competitive tender. Implementation arrangements will proceed as under the IDP-YSP with the following improvements: (i) more attention will be given to market analysis to determine the market demand for vocations. The provision of vocational training under the project will be targeted towards high demand professions where young people are more likely to find employment and good levels of earning; (ii) training in computer literacy will be provided to all the young beneficiaries rather than being delivered as a vocation in itself; (iii) candidate screening procedures will be streamlined to minimize drop-outs; and (iv) ways of broadening the list of master trainers - currently in short supply - will be assessed.

13. **Sub-component 2: Income Generating Activities.** The income generating activities sub-component represents a new undertaking for SFDI, and will be implemented through a PIA. The sub-component will entail the establishment of approximately 200 small businesses and micro-enterprises to be collectively owned and managed by IDP groups. Target communities will be those with a high incidence of poverty, low employment rates, and high dependence on
government subsidies as the main source of income. A full list of communities falling within these broad categories will be developed by implementing agencies. Selection of communities within this list will then be based on strict selection criteria (poverty and vulnerability indicators, data on sources of income, community size, previous mobilization history, willingness to participate and contribute through savings), subject to review by a Selection Committee (whose composition is outlined in the Operational Manual) and no objection by the World Bank. Within communities there will be a special focus on IDP women (targeting to 70% of groups); as discussed in the recent ESW, women have very high levels of economic inactivity. There will also be a focus on youth with a target of 30% of young beneficiaries in both male and female groups.

14. Target communities will receive intensive community mobilization facilitation and be encouraged to form small self-help groups (SHG) to identify possible income generating activities (IGA). Once a community has been selected, the PIA will engage with the local community firstly by speaking with local leaders and authorities. Mobilization within the community will then begin with a three or four day Participatory Rural Appraisal (PRA) and/or Asset-Based Community Development (ABCD) exercise. The PIA will be expected to deploy a team of 3-4 mobilization experts (of which at least half must be women) who will work together with the community. Through interaction with the community in small groups, the purpose of this exercise will be to help the community to think about its problems and achievements, and to facilitate understanding of them. The ABCD/PRA exercises should lead to the diagnosis of important economic problems and a common understanding of the priority actions for dealing with these. This should enable the community to arrive at an agreement on how problems may be solved, and to start to develop IGA business plans for addressing them. The development of IGA plans will be informed by detailed market analysis to ensure that demand for products/services exists and that input costs will generate sufficient net profits for the participating beneficiaries.

15. The Selection Committee will evaluate IGA proposals based on economic and social feasibility. Guidance in the specific technical area will be provided by resource persons identified by the PIA, and this expert will subsequently be required to provide training to SHG members if they are selected, and on-going guidance to the IGA in question. Some examples of IGAs might be as follows:

- Livestock enterprises e.g. for milk processing
- Incubators for egg production
- Crop production (input purchase, seeds fertilizers etc)
- Agricultural machinery (e.g. planter)
- Carpet making.

16. Once an SHG with its proposed IGA has been selected, arrangements will be made by the PIA to register the SHG as a Limited Liability Company (LLC) equally owned by SHG members and subject to a simplified tax regime. The LLC owners/SHG members will not receive salaries in order to minimize the tax burden on the LLC and will receive quarterly or semi-annual dividends on the basis of its profits, dividends will be taxed at 10%. According to current
legislation, any gross income generated by the LLCs will be subject to 4% tax. The LLC will appoint a head cashier to supervise these financial arrangements.

17. Once registered as an LLC, the SHG can open a local bank account. This account should be operated by SHG members, and any withdrawals from the account should be only on the joint signatures of three nominated members of the SHG (normally to be the Chair, Secretary and one other Member). The bank account will be used to deposit income when this begins to be generated. Initially groups will be required to contribute into the bank account the equivalent of five percent of the overall cost of the proposed business, and only when this figure and the method of its collection is agreed will the grant payment be made. Agreement on this contribution is critically important, needing to ensure proper ownership of the initiative whilst not overburdening the group.

18. The SHG with approved IGA and who have reached a required savings threshold will be supported with financial grants of not more than US$12,000 to start a new micro-enterprise. The small grants will be documented as contributions to the carter capital of the LLC to ensure that it will not be subject to tax. The grant sum payment will be made directly into the bank account by the SFDI. The grant transfer will be subject to: (i) approval of the IGA business plan by the selection committee; and (ii) verification by the implementing NGO that all necessary LLC and Bank account registration processes have been completed and that an adequate governance mechanism is in place among the SHG. For the purposes of the grant transfer, a contract (of which a sample is included in the OM) will be drawn up between SFDI and the SHG specifying activities to be funded under the grant and monitoring benchmarks.

19. The SHG will continue to receive intensive technical support, particularly on the marketing of products from the micro-enterprise.

20. **Sub-component 3: Provision of Micro-Credit for IDPs.** The micro-credit sub-component will build upon SFDI’s existing work in provision of micro-finance to eligible individual IDPs who wish to start or scale-up a business. It is proposed to extend a US$3 million line of credit (LOC) to SFDI under IDP LSLP to be disbursed through up to 10 Credit Unions. Five partner CU have been pre-selected for this component through a due diligence exercise, which reviewed the financial health of SFDI’s existing CU partners and their compliance with eligibility established in the World Bank policy OP8.30 on Intermediary Financial Lending. Additional partner CU will be identified through a selection process initiated 6 months after project effectiveness. The due diligence review identified a number of risks to the success of this activity associated with the weak governance and the lack of institutional strength of CU and the constraining regulatory framework concerning micro-credit in Azerbaijan. The project aims to mitigate these risks through funding a capacity building program for CU, strengthening the supervisory and support ability of SFDI in regards to micro-credit activities and engaging in policy dialogue with financial institutions in the GoA around reform of the sector.

21. In order to adhere to OP8.30 requirements that interest rates under World Bank financed LOC not induce market distortion, the on-lending rate from SFDI to partner CU will be increased from the current rate of 3% to be more in line with markets rates but not too great an increase from the current rate for CU to absorb. Allocations for each CU will be determined in proportion
to the asset base of the CU, these allocations would be agreed in advance of project implementation and will be subject to World Bank no objection.

22. To ensure that the performance of the LOC and CU remains compliant with OP8.30 standards over the life of the project allocations would be given to the CU on a three tranche basis dependant on their satisfactory performance. The World Bank and SFDI will both undertake CU performance monitoring according to an agreed set of criteria to be outlined in the project’s OM.

23. **Component D: Project Management and Capacity Building.** **Estimated total cost: US$7 million.** This component will fund all items necessary to ensure SFDI’s proper implementation, coordination, and supervision of the project including staff positions, staff training, and capacity building and offices assets such as vehicles and supplies. The component will also fund the monitoring and evaluation activities of project performance including the conduct of a baseline survey and annual monitoring surveys.

24. To enhance the technical quality of implementation and effectively implement new elements of the project, SFDI will introduce a number of new positions within the PIU including (i) increased numbers of technical staff to appraise and supervise the quality of works under Component A, Micro-projects and Component B, Housing Renovations, (ii) a stronger community mobilization department including a manager position to ensure the mainstreaming of this approach across all project activities, (iii) additional managerial capacity for the new activities under Component C, Livelihood Support, (iv) the fulfillment of additional functions in regards to environmental management and monitoring and evaluation. Staff capacity will also be increased through training and study tours particularly in the areas of community mobilization and livelihoods support.

**Component Selection Instruments**

25. **Selection of Micro-projects.** The following criteria will be used to determine if a micro-project is eligible for funding under the project and should proceed to technical appraisal. Based on categories in the table below, each micro-project will be conferred a rating determining eligibility to proceed to the next stage of the micro-project cycle.

**Pre-requisites:**

1. Minimum of 15 Families Present in Community: __YES / NO__
2. Commitment to Community Contribution of 3% of Micro-Project Cost: __YES / NO__
### Prioritization of micro-projects

<table>
<thead>
<tr>
<th>№</th>
<th>Categories identifying priorities</th>
<th>Description of scores</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Community participation <em>(in selection of micro-project and CMP committee)</em></td>
<td>% of community represented in meetings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt;60%</td>
<td>50-60%</td>
<td>50-60%</td>
</tr>
<tr>
<td>2</td>
<td>Proportion of IDPs in the community</td>
<td>51-100%</td>
<td>41-50%</td>
</tr>
<tr>
<td>3</td>
<td>Living standard of community housing:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Live in non-renovated collective housing in small towns or rural areas.</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Live in other non-renovated accommodation in small towns or rural areas</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Live in non-renovated collective housing stock in larger towns</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Live in renovated collective housing stock in major cities / towns</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Live in private / public houses in major cities / towns</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Public Service/Infrastructure Standards:</td>
<td>Current standard of service/infrastructure covered in proposal relative to national</td>
<td></td>
</tr>
<tr>
<td></td>
<td>standard (% of national standard)</td>
<td>&lt;50%</td>
<td>&lt;60%</td>
</tr>
<tr>
<td>5</td>
<td>Establishment capacity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CMP committee reflects a high degree of community mobilization and representativeness</td>
<td>Best Practice</td>
<td>High</td>
</tr>
<tr>
<td>6</td>
<td>Sustainability of maintenance and operations arrangements of the micro-project</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(rated according to SFDI assessed capacity of person/organization/other sources):</td>
<td>Best Practice</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Person / Organization / Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Number of micro-projects implemented by SFDI for this community</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

**Total score**

**Note:**
- maximum score 35
- minimum score 20
Process for Selection of Collective Centers

190-200 Collective Centers

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Data provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Built after 1960</td>
<td>Age of building</td>
</tr>
<tr>
<td>• No private ownership</td>
<td>Name of owner</td>
</tr>
<tr>
<td>• No ecological hazard</td>
<td>Free from flood and pollution risk</td>
</tr>
<tr>
<td>• Good access to services</td>
<td>Location of school, hospital, kindergarten,</td>
</tr>
<tr>
<td>– meets national standards</td>
<td>electricity sub-station, water supply</td>
</tr>
</tbody>
</table>

Long List
By project appraisal: long list + data provided to the World Bank for no objection

Feasibility stage

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Data required</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Technically viable</td>
<td>Summary of technical assessment</td>
</tr>
<tr>
<td>• Socially viable; Community agrees</td>
<td>Summary of social assessment</td>
</tr>
<tr>
<td>with renovation, community willing to</td>
<td></td>
</tr>
<tr>
<td>pay a share, no social tension</td>
<td></td>
</tr>
<tr>
<td>• Allows good economic opportunities</td>
<td>Market survey</td>
</tr>
</tbody>
</table>

List of Eligible Collective Centers
By project effectiveness: list + evidence provided to the World Bank for no objection

Selection of Beneficiaries and Activities for Income Generating Activities

26. Choice of IGAs. Selection will be based on, (i) a set of principles, and (ii) clear and specific technical criteria. The underlying principles for IGAs is that they should be:

   a. people-centered and participatory
   b. flexible and responsive to needs
   c. medium or long-term and sustainable
   d. empowering to all concerned
   e. conducted in partnership with others
   f. building on strengths
27. Specific technical selection criteria for IGAs should be as follows:

   a. Farm, off-farm or non-farm activities all acceptable;
   b. Must offer the opportunity to increase income of all participating community members;
   c. Activities should fit with the agro-ecology of the local area;
   d. Activities should be simple and within the group’s comprehension and management competence;
   e. Should have the potential for marketing and scaling up
   f. Should have a maximum cost of USD 12,000
   g. Should be technologically feasible.

28. There will be a Selection Committee to evaluate IGA proposals whose composition is outlined in the project’s OM. Guidance in the specific technical area will be provided by resource persons identified by the implementing NGO, and this expert will subsequently be required to provide training to SHG members if they are selected, and on-going guidance to the IGA in question.

29. Some examples of IGAs might be as follows:
   - Livestock enterprises e.g. for milk processing
   - Incubators for egg production
   - Crop production (input purchase, seeds fertilizers etc)
   - Agricultural machinery (e.g. planter)
   - Carpet making.

30. Selection of SHG for grants. Once groups have formed into effective organizations, and have developed ideas for their chosen IGAs, there will be a selection process to identify those who will be eligible for grants. This will be made on the basis of a number of criteria, which will include:

   a. Regularity of SHG meetings (monthly)
   b. Successful election of SHG office holders (chairperson, secretary, members)
   c. Capacity to make decisions by common consensus
   d. Maintenance of good accounts
   e. Clarity and viability of selected IGA
   f. Quality of Business Plan

31. Applications from male SHGs will be considered where they are able to meet the above criteria for selection for IGA activities.
Annex 3: Implementation Arrangements

1. **Project Administration Mechanisms.** The implementing agency for the project will be the Social Fund for the Development of IDP (SFDI), which has effectively implemented World Bank financed projects, including IDP-EDS and the IDP-EDS AF, for the past ten years. SFDI is now the main agency responsible for all state funded IDP housing programs as well as several projects for IDP funded by international donors. SFDI is directly accountable to the State Committee on IDP and Refugees (SCRI) and is supervised by a multi agency board including international representation.

2. SFDI staff will be responsible for the majority of project management functions including fiduciary control, procurement, supervision, and monitoring and evaluation. SFDI will also directly implement project activities under Component A, Micro-projects, Component B, Housing Renovation. For these components, SDFI will undertake the following tasks: (i) ensure that IDP communities are aware of the project scope and activities through communication and information campaigns; (ii) oversee the selection of beneficiary IDP communities according to the transparent selection processes and criteria outlined in the project’s Operational Manual (OM); (iii) undertake the social, environmental and technical appraisal at each selected site to ensure that the eligibility and sustainability conditions meet those specified in the OM; (iv) hire qualified companies to draw up designs for the works; (v) hire qualified contractors to undertake the works; (vi) supervise the quality of works performed by the contractors; (vii) participate in hand-over meetings with local authorities; (vii) ensure the participation of local community members in all aspects of the investment including supporting a local community committee to oversee the works and facilitating a community based appraisal where local IDP give feedback on the works of the design; and (viii) conduct monitoring and evaluation of the results of each investment.

3. Under Component C – Livelihood Support, SFDI will contract a number of partner implementing agencies (PIA) including Non Governmental Organizations (NGO) and Credit Unions (CU). For this component SFDI will be responsible for the following tasks: (i) undertaking a competitive tender to select the required implementing agencies, (ii) supervising the quality of activities undertaken by the implementing agencies to ensure they are in accordance with the procedures outlined in the OM, (iii) exerting fiduciary control over the implementing agencies and effecting agreed financial disbursements against identified deliverables, (iv) gathering and analysing monitoring data from the implementing agencies.

4. Five partner Credit Unions who will receive financing under the project for the purposes of on-lending to IDP, have been identified through due diligence activities in accordance with the Bank policy OP8:30 on intermediary financial institutions. Additional partner CU will be selected through a process that ensures compliance with OP8.30 requirements. This process will be undertaken by SFDI and the World Bank six months after project effectiveness.

5. SFDI staff have already developed strong capacity in Bank processes and procedures and has the necessary experience and competence to manage all core functions at a satisfactory level. The ongoing project relationship between the World Bank and SFDI has improved many facets of implementing agency governance. However, during project preparation it was agreed that
under the proposed project SFDI will increase staffing numbers and capacity in the following areas: (i) Technical appraisal and supervision, (ii) Community Mobilization, (iii) Livelihood Support, (iv) Environmental Management, (v) Monitoring and Evaluation.

6. One capacity challenge relates to the adoption of community mobilization approaches, which are an essential approach throughout the proposed project. Under IDP-EDS SFDI decision-making has increasingly reflected community-driven priorities, and community mobilization efforts have been greatly enhanced. However more progress can be made in this area. It is agreed that a new Community Mobilization Manager position will be created, to manage the mainstreaming of the approach throughout the project activities, and a larger team of community mobilization officers will be recruited. In addition, staff abilities to implement and oversee community mobilization will be strengthened through training and on-the-ground experience. SFDI will seek an experienced training organization to deliver a comprehensive training curriculum to SFDI staff on Participatory Rural Appraisal methods, which facilitate the step by step incorporation of the views and priorities of IDP beneficiaries into the project. The design of Component A (Micro-projects) has been modified to ensure a phase-in of increasing levels of community mobilization in the micro-project cycle. This incremental approach will allow SFDI to undergo a process of learning-by-doing.

7. A second capacity challenge relates to Component C (Livelihood Support), Sub-Component B – Income Generating Activities (IGA), which represents an entirely new undertaking for SFDI. Although the activities will be implemented by a qualified NGO, with previous experience in this sector, it is imperative that SFDI fully grasps the concepts and abilities to support the intensive community mobilization and micro-enterprise process entailed. During the project preparation period SFDI and the World Bank embarked on some income generating activity pilot projects, which provide a forum for intensive learning and will serve to mitigate the capacity challenges. Under the new project additional staff will be recruited to manage this sub-component and all involved staff will undertake a study tour to another country location where these activities have been successfully implemented among vulnerable beneficiaries. The study tour will enhance understanding of the concepts and modalities of IGA.

8. **Financial Management.** The SFDI will be responsible for FM arrangements. The SFDI has been implementing IDP EDSP and its FM arrangements have been assessed as satisfactory. Accounting and Internal Control systems of the SFDI are reliable and effective. FM staffing arrangements of the SFDI were also assessed as adequate.

9. The Inherent FM Risk of the project is rated as Substantial, while the Control and Overall FM Risk is Moderate. The SFDI will use its current accounting system based on 1C, with modest modification, for the proposed new project. FM policies and procedures have been revised to update some outdated areas.

10. **Budgeting and counterpart funding.** The SFDI will have overall responsibility to coordinate budget preparation. Budget figures will be entered into the accounting system and execution will be monitored through quarterly interim IFRs. The SFDI will ensure timely data inflows from recipients in an agreed format. The annual project budget will be split by quarterly expenditures, components, and sources of finance. The draft annual project budget will need to
be agreed with the relevant government organizations before submission to the Bank. Government co-financing part of the budget should be sent to relevant government agencies in a timely manner to ensure that adequate counterpart funding is available during the Project.

11. **Flow of Funds.** Bank funds under the Project will be disbursed through transaction-based disbursement methods that include: reimbursements with full documentation, reimbursements based on SOEs for small expenditures with defined thresholds, payments against issued Special Commitments, direct payments to third parties, and payments through the Designated Account. The borrower shall also maintain, until the completion of the Project, a Project Account in Manat on terms and conditions acceptable to the Bank, to finance its counterpart contribution to the expenditures of the Project.

12. **Accounting, Internal controls and Reporting.** The SFDI maintains accounting records in 1C based accounting system. The system will need modest modification such as creating new chart of accounts and reporting formats. The software will have the capacity to generate IFRs of the project. Accounting and Internal Control systems of the SFDI have been assessed as reliable and effective. The SFDI will submit quarterly IFRs covering one quarter, format and content of which have been agreed upon. The IFRs will include the following reports: Sources and Uses of Funds, Uses of Funds by project activities, designated account statement, project Balance sheet and Uses of Funds by project categories such as Works, Goods, Consultancy Services and Operating expenditures.

13. **External Audit.** Financial audit of the project as well as SFDI financial statements will be required: independent auditors will audit project and SFDI financial statements under terms of reference acceptable to the Bank and in accordance with ISAs. Project and entity audit reports will be submitted to the Bank within six months of the end of each calendar year and at project closing. In accordance with "The World Bank (Policy on Access to Information" dated July 1, 2010” the Bank requires that the Borrower makes the audited financial statements publicly available in a timely fashion and manner acceptable to the Bank. In addition, following the Bank’s formal receipt of the financial statements, the Bank makes them available to the public in accordance with this policy.

14. **Fund flow to Communities.** Under Component C, Livelihood Support Sub-component iii, Income Generating Activities, there will be a disbursement of small grants not more than US$12,000 directly from SFDI into bank accounts set up by Self Help Groups. The grant transfer will be subject to, (i) approval of the IGA business plan by the selection committee and, (ii) verification by the implementing NGO that all necessary LLC and Bank account registration processes have been completed and that an adequate governance mechanism is in place among the SHG.

15. **Prior to the disbursement of a grant to the SHG/LLC a contract will be drawn up between SFDI and the SHG. The template for this contract is included in the OM. There will be three possible arrangements for the disbursement of the small grant to the SHG/LLC: (i) if the grant is
for purchase of an asset that needs to be paid for immediately the entire grant amount will be transferred to LLC immediately after the signing of a contract. The LLC then will submit, within 3 months from the date of the disbursement, a report to SFDI summarizing the use of grant funds and attaching supporting documents, (ii) if the grant is for financing working capital of the LLC then only 50% of the grant amount will be transferred to LLC after the signing of a contract. The remaining 50% will be transferred to LLC upon submission of a report to SFDI summarizing the use of the first tranche of the grant funds with supporting documents. The LLC then will submit, within 3 months from the date of the final disbursement, a report to SFDI summarizing the use of second tranche and attaching supporting documents, (iii) if the grant proposal approved by the Special Committee has working capital and asset elements then the working capital part will be paid and documented as per the section (ii) above and the asset part will be paid and documented as per the section (i) above. Eligibility for the small grants and fund flow procedures and controls are outlined in the project’s Operational Manual.

16. In order to accommodate the proper financial management, monitoring and control over the grant funds to be allocated to SHG/LLC, these grant funds will be reported as one line in the project financial statements. The TOR for the annual project and entity audit TOR will be adjusted so that the scope includes checking by auditors on the financial reports submitted by randomly selected SHGs/LLCs.

17. **Disbursement.** The loan will be disbursed through transaction-based disbursement methods that include: reimbursements with full documentation, reimbursements on basis of SOEs for small expenditures with defined thresholds, payments against Special Commitments, direct payments to third parties, and payments through the Designated Account.

18. **Designated Accounts.** To facilitate project implementation, a Designated Account will be opened in a commercial bank on terms and conditions acceptable to the Bank, for the IBRD loan. The Designated Account, which will be managed by the SFDI, will be replenished on a quarterly basis, as needed. During project Negotiations it was agreed that the ceiling of the Advance to the Designated (DA) Account will be US$2,000,000. The Designated Account will be audited annually in conjunction with the audit of the project financial statements.

19. Disbursements will be made on the basis of full documentation for: (i) contracts for goods costing more than the equivalent of US$200,000 each; (ii) contracts for works costing more than the equivalent of US$300,000; and (iii) services under contracts of more than the equivalent of US$100,000 for each consulting firms and more than the equivalent of US$50,000 each for individual consultants. Disbursements below these thresholds and for expenditures against incremental operating costs and training will be made according to certified SOEs. For all expenditures financed under SOEs full documentation in support of the SOEs will be retained in the PIU for at least two years after the project closing date. This information will be available for review by Bank missions during project supervision and by the projects auditors. SOEs will be audited in conjunction with the annual audit of the project. Further instructions on the size of the Minimum Application and on how funds will be withdrawn from this Loan are provided in the Disbursement letter.
20. The withdrawal of proceeds from the IBRD loan will be made in accordance with the Schedule for withdrawal of proceeds:

<table>
<thead>
<tr>
<th>Category of Expenditure</th>
<th>Amount of the IBRD Loan Allocated (Expressed in mln USD)</th>
<th>Percentage of Expenditures to be Financed (Net of VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works; Goods; Consultant’s services, including audit; Micro-credits; Training; ; Small grants; Operating costs</td>
<td>49.875</td>
<td>75%</td>
</tr>
<tr>
<td>2. Front-end-Fee</td>
<td>0.125</td>
<td>100%</td>
</tr>
<tr>
<td>3. Premia for Interest Rate Caps and Interest Rate Collars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>50.0</td>
<td></td>
</tr>
</tbody>
</table>

21. **Government Contribution.** The Government’s contribution (the total Government co-financing share is US$ 28.5million, including VAT) to finance project expenditures will be disbursed from budget allocations through a Project Account maintained in a commercial bank, and managed by SFDI. Funds will be released to finance expenditures as they are incurred, and Project Account will be replenished regularly.

22. **Retroactive financing.** Project activities under Components A, Micro-projects, Components B, Housing Renovation, Components C, Livelihood Support and Component D, Project Management and Capacity Building, costing in total not more than twenty percent of the Loan amount will be eligible for retroactive financing. During project Negotiations it was agreed that the amount of retroactive financing will be US$800,000. Retroactive financing may cover Consultant’s Services, Goods, Works, financing to intermediary financial institutions and community grants. Retroactive Financing will apply to payments made by the Borrower not more than 12 months before the date of the Loan signing.

23. **Procurement.** Procurement for the Project will be carried out in accordance with the World Bank’s “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants, January 2011” and the “Guidelines: Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank Borrowers, January 2011;” and the provisions stipulated in the Loan Agreement.

24. **Procurement Risk Assessment.** A procurement assessment carried out during the pre-appraisal of the new project in March 2011 and at the appraisal in June 2011 found three potential risks: (i) attempts of administrative intervention in procurement and selection under the project funded sub-projects; (ii) the procurement environment may be effected by problems related to governance and corruption; and (iii) as the project involves participation of communities in Component C, Livelihood Support, addressing procurement issues at that level may be challenging due to lack of capacity among communities. As a result, the overall project
risk for procurement is considered substantial. Risk mitigation measures were discussed with SFDI during the project appraisal and are included in the OM.

25. SFDI will be responsible for the majority of procurement functions under the project. The general conclusion is that the core PMU has adequate experience to carry out procurement activities. The staff (Procurement Manager and two Procurement Assistants) are familiar with Bank procurement guidelines and procedures as they have been involved in, and gained substantial knowledge and experience during, the implementation of the IDP EDS and IDP EDS AF projects with the Bank. The Project will finance various contracts for (a) civil works (average package size US$100,000) with a wide geographic spread, (b) technical services, (c) consultancy contracts and several contracts for goods, as indicated in the Procurement Plan. A number of contracts may be conducted following Direct Contracting justified as per the Procurement Guidelines (paragraph 3.7). The procurement under the Income Generating Activities sub-component of Component C, Livelihood Support will be done by the SHG (formed within communities) under the monitoring and guidance of a Technical Assistance consultant, which may be an NGO, selected as per the Bank Guidelines for Selection of Consultants. Procurement under Component C – Livelihood Support shall be carried out by: (i) beneficiaries under the sub-components Youth Training and Business Development, and Micro-Credits Average size of loans will be US$1,900 and (ii) SHG under IGA. The maximum amount of the Grant to SHG will be US$12,000.

26. **Procurement Plan and Procurement Arrangements.** The SFDI, has developed a Procurement Plan, which was finalized during project negotiations for project implementation during the first eighteen months, which provides the basis for procurement methods. In the procurement plan, all contracts will be grouped in bid packages as much as possible to encourage better competition. This initial plan will be agreed between the Borrower and the Bank during the negotiations. It will be available at the office of the SFDI, and on the Bank's external website. The Procurement Plan will be updated in agreement with the Bank annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. Contracts not subject to Bank’s prior review will be post reviewed by the Bank’s procurement specialist assigned to the project. Post review of contracts will be carried out once per year. Not less than 20% of the contracts under Component A: micro projects; Component B: Housing Renovation; and Component D: Project Management and Capacity Building and 5% of the contracts under Component C: Livelihood Support activities will be post reviewed by the Bank.

27. **Risk Mitigation.** The following measures were agreed to mitigate the remaining risks and maintain the implementing team’s capacity.

- The Procurement section of the IDP-EDS OM will be updated by the SFDI to meet specific needs of the new project, which, among other things, will elaborate on the roles and responsibilities in the management and coordination of the procurement process, preparation of terms of reference and technical specifications, evaluation, establishment and appointment of evaluation committees, conflict of interest mitigation measures, record keeping, contract management, a complaint handling mechanism, etc.
The Bank’s Procurement Specialist assigned to the project will provide the team with a full set of the most recent procurement documents, including but not limited to Procurement and Consultant Guidelines, standard and sample bidding documents, proposal, evaluation report documents, etc.

28. **Documentation.** The PMU will maintain complete records under the proposed project for each activity, which will include complete procurement documentation for each contracts, including bidding documents, RFPs, advertisements, bids received, bid evaluations, no objections, letters of acceptance, contract agreements, bid security, advance payment guarantee, performance security, photocopies of invoices and payments and related correspondence, etc. Contract award information will be promptly recorded and contract rosters maintained. Agreed reporting formats will be included in the OM.

29. **Procurement of Goods, and Non-consultant technical services:** Goods, and non-consultant technical services estimated to cost US$300,000 equivalent and more, will be procured through ICB. Goods, equipment and non-consultant technical services estimated to cost less than US$300,000 may be procured through NCB and less than US$100,000 through Shopping.

30. **Procurement of Works:** Works contracts estimated to cost US$3,000,000 equivalent or more will be procured through ICB. Works contracts estimated to cost less than US$3,000,000 may be procured though NCB and less than US$100,000 through Shopping.

31. **Preparation of Long Lists for Shopping:** Under the IDP EDS AF project, SFDI advertised and developed a long list of potential firms that were invited to participate in a shopping when the bids were invited. The selection committee for evaluating the applications and preparing the long lists consists of the representatives of Ministry of Internal Affairs, Ministry of Labor and Social Protection, Cabinet of Ministers, State Committee for Refugees and IDPs Affairs and SFDI. The selection is conducted in 7 different categories, such as 1) repair and rehabilitation of social infrastructure; 2) repair and rehabilitation of water supply systems; 3) repair and rehabilitation of electricity supply systems; 4) repair and rehabilitation of roads; 5) repair and rehabilitation of sanitation and drainage systems; 6) repair and rehabilitation of group shelters; and 7) service micro-projects (supply of tents, equipment, etc.). SFDI will continue to use the long lists which will be updated annually. Procurement through Shopping will require use of the subject long lists and procedures further indicated in the Project Operational Manual. Direct Contracting could also be available as an exceptional procurement method observing relevant procurement provisions and subject to prior review by the Bank.

32. **Selection of Consultants:** Consulting services under the project will be procured in accordance with the Bank’s Consultant Guidelines mentioned above and by using the standard RFP and contract forms. Consultant’s services would include Quality and Cost Based Selections (QCBS), Fixed Budget Selection (FBS), Consultant Qualifications (CQS), Least Cost Selection (LCS), Single Source Selection (SSS) and Individual Consultants (IC). Consultancy contracts estimated to cost more than USD 200,000 equivalent will be selected through QCBS. Individual Consultants would be selected in accordance with the provisions 5.1 to 5.6 of Section V of the Consultant Guidelines. This method will require comparison of at least three qualified candidates
interested and available to undertake the assignment. In agreement with SFDI, consultants hired to senior SFDI staff positions will be subject to World Bank review and approval of TOR, selection criteria, selection process and final award.

33. **Community Participation Procurement (CPP):** Procurement of goods, works and services under Component C, Livelihood Support to create income generating activities for IDP groups shall be carried out by the Community Participation Procedures method in accordance with paragraph 3.19 of the Procurement Guidelines.

34. **Commercial Practices (CP):** Procurement of goods and services under Component C, Livelihood Support to improve the professional skills for young IDP people shall be carried out through established commercial practices in the country in accordance with the procedures defined in the Project’s Operational Manual.

35. **Operating Costs:** These expenditures would cover costs incurred for all components under the project, such as trainings / study tours, vehicle operating costs or rental for supervision, utility and communications costs, translation cost, bank charges, office supplies, advertisement costs, etc, which would be financed by the project as per annual budget approved by the Bank prior to initialization of any action and would be procured in accordance with the Public Procurement Law of Azerbaijan and the administrative procedures of SFDI which were reviewed and found acceptable to the Bank. Operating cost shall not include salaries of civil servants or government employees.

36. **Short list comprised entirely of national consultants:** Short list of consultants for services, estimated to cost less than US Dollars 100,000 equivalent per contract, may be comprised entirely of national consultants (unless qualified international firms express interest) in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

### Prior Review Thresholds

<table>
<thead>
<tr>
<th>Category</th>
<th>Prior Review Thresholds in US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works</td>
<td>≥US$300,000; All DC; First 2 SH &lt;US$100,000; First 2 NCB</td>
</tr>
<tr>
<td>Goods and non Consulting Services</td>
<td>≥US$200,000; All DC; First 2 SH</td>
</tr>
<tr>
<td>Consulting firms</td>
<td>All QCBS; All ≥US$100,000; All SSS</td>
</tr>
<tr>
<td>Individual consultants</td>
<td>≥US$50,000; All SSS</td>
</tr>
</tbody>
</table>

37. **Environmental Safeguards.** The experience of the original IDP-EDS indicates some positive environmental impacts will result from the project, such as improved wastewater treatment, improved water supply, rehabilitated community facilities, which provide stronger opportunity for beneficiaries to get self-organized, and better quality waste management in community centers. There are also certain negative impacts which might occur during the implementation of civil works. These may include but not be limited to:

- Construction and general impacts: health and safety hazards for construction workers and the public; noise; dust; soil and water pollution from fuel and oil;
generation of waste materials; surface run-off; excavation of materials and disposal of surplus soil; risks to environmentally sensitive areas;

- Water Supply Impacts: over-exploitation of water resources; interruption of surface and underground drainage patterns; contamination of resources during construction works; damage to soil during excavation;
- Access Roads Rehabilitation Impacts: noise, dust, vehicle and pedestrian safety, changes in drainage and traffic patterns;
- Wastewater, Drainage and Sewerage Construction Impacts: smell, impacts on the river regime, pollution by the effluent;
- Small-Scale Irrigation Impacts: impacts on water resources; water logging of the soil; discharge of wastewater;
- Minor Building Impacts: generation and disposal of wastes during construction / rehabilitation, medical waste management during operation of medical facilities.

38. The potential adverse environmental impacts are minor and can be addressed through appropriate mitigation measures. For the purpose of OP 4.01 “Environmental Assessment”, the project has been assigned an environmental category ‘B’. The Environmental Management Plan Framework prepared for the IDP EDS project addresses most of the impacts specified above for Component A and provides a framework mechanism for screening environmental impacts, developing mitigation plans and monitoring environmental progress. As for the original project, environmental assessment will be carried out for specific micro-projects and/or project sites, and environmental advisory services will be provided, as appropriate. The Borrower has updating this EMPF to incorporate, to extend possible, impacts associated with the newly proposed activities under Components B and C, and identify environmental screening criteria for eligible investments. The updated EMPF will be publicly disclosed by the Borrower, with public consultation with stakeholders to be held in the selected rayons of the project area. The stakeholders will include representatives of IDP communities/potential beneficiaries, local governments, municipalities, NGOs, local environmental authorities. The Borrower will prepare records of all meetings and enclose those to the final updated EMPF.

39. During the implementation of the original IDP-EDS the SFDI staff demonstrated satisfactory safeguard performance and developed strong capacity in Bank safeguard policies and procedures. The PIU engineer responsible for the supervision of both preparation and implementation of micro-projects coordinated with design companies for the preparation of site-specific EMPs and ensured that contractors were contractually obliged to implement mitigation measures identified at the design phase, which included, for example, safe collection and disposal of construction wastes, careful selection of micro-project sites, rehabilitation of the sites excavated for the purposes of micro-projects. The implementation of micro-projects was closely monitored by the PIU for environmental compliance. This resulted in satisfactory environmental performance throughout the project life. The project will build upon this existing implementation experience, and sufficient project resources will be allocated to SFDI staff to maintain and enhance skills in safeguard actions. SFDI will continue to use the existing safeguard guidelines and manuals including the Environmental Management Plan Framework (EMPF) and relevant sections of the Operational Manual (OM), which were developed under IDP-EDS and were updated for the purposes of the new project. In order to enhance in-house capacity to deal with
more diverse micro-projects, SFDI will recruit a dedicated environmental specialist to oversee EMPF compliance.

40. Proposed micro-projects and housing renovations may include repair and rehabilitation of existing water supply and sewerage systems as well as irrigation and drainage schemes. Such activities might be developed, *inter alia*, on rivers flowing into the Caspian Sea and transboundary rivers, which are international waterways for the purposes of the World Bank Operational Policy on Projects on International Waters (OP 7.50). However, for such micro-projects, no new constructions will be eligible for financing under the new project, and no adverse impacts are expected on the quality and quantity of water flows. Thus, as was the case for the original IDP EDS projects, while OP7.50 is triggered, in May 2011 the Regional Vice President approved an exception to the notification requirements under OP7.50 for the proposed project.

41. **Social Inclusion.** Equitable and transparent targeting of IDP beneficiaries is the primary social issue to be assigned priority. The project design has been tailored to ensure that communities are prioritized on the basis of need and suitability for investments across the three components. For micro-projects a screening tool has been developed that uses scoring criteria to determine selection of eligible micro-projects based on the existing standards of services and infrastructure and the quality of living conditions. For collective center renovation, a selection criteria has also been developed that will ensure the centers selected are only those offering sustainable economic opportunity in the proximate areas would be selected as well as technical suitability for longer-term housing. Livelihood initiatives will also be targeted on the basis of demonstrated need, targeting will account for highest incidence of poverty, with highest unemployment and lowest economic opportunity, which would lead to an emphasis on smaller towns and rural areas.

42. **Monitoring and Evaluation.** SFDI will be responsible for monitoring and evaluating the outcomes of the project, against agreed indicators as set out in the Results Framework. The Result’s framework will include World Bank core indicators, quantitative measurements of project outputs and qualitative measures based on beneficiaries own perceptions and experiences of the impacts of the project. The indicators for results under the Component C - Livelihood Support, are being developed together with the Global Program on Displacement in the Social Development Department of the World Bank, to ensure that they align with initiatives to create standard global definitions for the measurement of increasing economic opportunities for displaced persons.

43. A fair level of data already exist in Azerbaijan on IDP living standards, access to services and infrastructure, levels of poverty and employment. Such data will be collated for the purposes of setting the baseline information for the project. These data will be added to through the conduct of a baseline survey undertaken at the commencement of the project. However since many of the activities under the project are demand-driven and it is not possible to know in advance which sector investments will fall under, the collection of baseline data for these community based sectoral investments will also be incorporated into the micro-project cycle throughout the life of the overall project.
44. A project specific monitoring and evaluation (M&E) system will be developed, with corresponding data collection schedules, formats and Project Management Information System (PMIS). Project financing under Component D, will cover the costs of maintaining this M&E system as well as the conduct of the baseline survey, mid-term and end of project impact assessments, SFDI will increase their staff capacity for M&E through the recruitment of an M&E Officer position. Where project activities are to be undertaken by implementing partners, SFDI will supervise the quality, reliability and timeliness of their data collection.
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