

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Azerbaijan	Project Title:	Shah Deniz Stage II Gas Field Expansion Project
Lending/Financing Modality:	Project Finance	Department/Division:	Private Sector Operations Department/ Private Sector Infrastructure Finance 1 Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Stage II development of the Shah Deniz gas field includes the construction of two new bridge-linked off-shore production platforms; 26 subsea wells drilled with two semi-submersible rigs; 500km of subsea pipelines and expansion of the onshore gas processing terminal at Sangachal.

The project is aligned with the Azerbaijan Country Partnership Strategy (CPS) 2014-2018, which supports ADB's participation in the development of natural resources in instances where it would be instrumental in attracting third-party commercial sources of credit which normally take a cautious approach to projects in the region. ADB's presence in such transactions will facilitate these projects in adopting international due diligence, governance, and transparency standards. The project supports two of the five core areas of operations under Strategy 2020 – infrastructure and regional cooperation and integration. Catalyzing investments by increasing private sector participation is one of the five strategic drivers of change under Strategy 2020. Following the Midterm Review of Strategy 2020, ADB is committed to be a provider of catalytic solutions to upper middle income countries (UMICs) such as Azerbaijan which include increasing leveraging opportunities with private capital. The project is consistent with the ADB Energy Policy, which provides for assistance to gas field development, and transportation and distribution of gas. The project is expected to contribute to the following objectives of the State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008–2015 : inclusive growth opportunities in the project area, infrastructure development, job creation, social protection and private sector development.

B. Targeting Classification:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)

The project will create direct employment for local residents both during the construction and operation stages and also improve in capacity building and skill development of the local and regional workforce. Moreover, the project is expected to contribute to the Government coffers through tax revenues, which can be a source of budget support for social development projects.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The communities in the vicinity of the Terminal are typical of rural Azerbaijan which is characterized by occasional clusters of Internally Displaced Persons (IDPs), sub-standard local roads and limited public infrastructure and social services. Most of the lands owned are not utilized for agricultural uses. The main restrictions associated with expanding agricultural activities relate to the presence of poor quality soil and difficulties associated with installing and maintaining irrigation networks. Lack of adequate skills to be employed in the recent development in the area, and the resulting lack of employment opportunities were identified in the socio-economic surveys and consultations carried out.

The community engagement plan and work force management plan of BP recognizes the following key social issues in its engagement efforts with the communities: (i) Potential for influx issues; (ii) The need to significantly enlarge the contractors existing workforce; (iii) Proximity to vulnerable communities; and (iv) Expectations of the communities. In line with these issues, specific targets for recruitment from named communities were included in the construction contracts. To reduce the potential influx issues a requirement was also included that the contractors verify the applicants location of residence via presentation of the government identification card.

2. Impact channels and expected systemic changes. BP is the operator for the project. BP project activities in Azerbaijan (construction and operations) have had historically a significant impact on local and regional employment levels. Individuals surveyed by the sample socioeconomic survey who had previously worked on BP contracts reported positive experiences, particularly in terms of increasing their household income, developing their skills and improving future career prospects. To help ease the pressure on inadequate employment opportunities, the project will help offer job opportunities to local labor force, facilitate local employment through information centers in

Sangachal Town, Umid and Sahil, and continue to implement trainings to construction workforce prior to and during employment.

3. Focus of (and resources allocated in) the PPTA or due diligence. A consultant was engaged by the Lenders to conduct due diligence on safeguards and other social dimensions.

4. Specific analysis for policy-based lending. Not Applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? Across Azerbaijan, women enjoy the same legal rights as men although gender discrimination does occur, particularly in rural communities. The status of women in relation to their employment status, level of maximum education attained and participation in society was discussed during women's focus groups held in each community. There were no problems in seeking women to participate in the SSES focus groups from any of the communities, indicating that there are no cultural barriers. The socio-economic surveys indicated lesser likelihood of women being employed (19%) compared with men (79%). Women were also less likely to be interested in undertaking technical training (82%) compared with men (68%). While there is a general lack of job vacancies available locally, there are particularly few opportunities that are (perceived to be) suitable for women.

2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making?

Yes No There is limited space to promote opportunities in the project. However, activities and measures will be explored to involve women in the project's supply chain.

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?

Yes No Please explain

4. Indicate the intended gender mainstreaming category:

NGE (No Gender Elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

Project stakeholders include the Lukoil (Sponsor), BP (Operator), relevant national and local government authorities, affected fishermen, and nearby communities in the project area.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded?

A Stakeholder Engagement Plan (SEP) has been prepared by the Operator (BP) to support the Shah Deniz 2 (SD2) Project for stakeholder engagement, consultation and communications in accordance with BP's social policy and other corporate standards. The SEP has been designed to create an open communication channel with stakeholders, and allow stakeholders to understand significant impacts of the project and helps the project manager to address local expectations and incorporate feedback in the project design, overall fostering the achievement of a sound and comprehensive project. BP's community and sustainable development strategy for the project is managed by the Communications and External Affairs (C&EA) team. The programme will go beyond mitigation of social and environmental impacts to ensure a positive net benefit to the area of project operations.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

(M) Information generation and sharing (M) Consultation (M) Collaboration (N) Partnership

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? Yes No

BP has prepared and approved its SEP in November 2014, to be implemented over the entire construction and operation stages of SD2 project. This SEP covers the following areas: (i) A brief description of the SD2 Project; (ii) A review of legislative, regulatory and corporate requirements relating to stakeholder engagement, public consultations and information disclosure; (iii) An overview of the conducted public consultations and information disclosure in relation to the project; (iv) Plan of consultations for the construction and operation phases of the project; (v)

Identification of resources and organizational requirements for implementation of this SEP; (vi) A description of the grievance mechanisms and procedures to operate in the project; and (vii) procedures for monitoring the stakeholder engagement process. The following local communities, including minorities and vulnerable groups have been identified in the SEP (i) community groups in Sangachal, Umid, , Azim Kend and Masiv 3; (ii) women's groups in the affected communities, (iii) youth groups in the affected communities; (iv) Sangachal Elders' Council (v) Internally Displaced Persons (IDPs) and refugees in the affected communities (vi) herder families, and (vii) fishing communities and households.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No

The land for the operations of the terminal and any other facilities required by the project will be acquired by Azerbaijan State Oil Company (SOCAR) and made available to the operator (BP). All lands required for the SD2 project facilities are government lands and have been transferred to the operator by SOCAR. An independent audit has been conducted on the land acquired and resettlement activities done for the existing facilities (SD1 project). and it was confirmed that the involuntary resettlement impacts are addressed in line with the EBRD requirements and there are no outstanding compliance requirements on implementation of the resettlement plans. The audit identified that no issues pertaining to land use, land rights or ownership for all facilities apart from the informal use of 2.18 ha of SOCAR land (required at the landfall location of the pipelines from the production wells) by 5 individuals, which have been negotiated and compensated. In addition, the livelihoods of 48 fishermen carrying out small scale fishing at the Sangachal bay has been affected for a period of 9 months (starting December 2014) due to the enforcement of marine exclusion zone for the installation of pipelines.

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

- Resettlement plan Resettlement framework Social impact matrix
 Environment and Social Compliance Audit None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

All lands required for siting the project facilities are government lands and have been transferred to the operator by SOCAR. There are no indigenous communities existing in the project influence area, and therefore impacts on indigenous peoples are not expected.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities? Yes No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

- Indigenous peoples plan Indigenous peoples planning framework Social Impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

- Creating decent jobs and employment (M) Adhering to core labor standards (M) Labor retrenchment (M)
 Spread of communicable diseases, including HIV/AIDS (M) Increase in human trafficking Affordability
 Increase in unplanned migration (M) Increase in vulnerability to natural disasters Creating political instability
 Creating internal social conflicts Others, please specify _____

The project will contribute to the labor market through (i) creation new job opportunities during its operations, (ii) temporary employment of local workers during the construction period.

2. How are these additional social issues and risks going to be addressed in the project design?

BP and its contractors will comply with the national labor laws of Azerbaijan and adopt measures to adhere to the Core labor standards. The stakeholder engagement plan of BP will require close and continuous engagement with the communities and relevant stakeholders to ensure that the social issues and risks are addressed during project implementation and operation.

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?

Yes No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

An independent consultant has been engaged for the conduct of safeguards audit and social due diligence.