

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Azerbaijan	Project Title:	Shah Deniz Stage II Investment Plan
Lending/Financing Modality:	Multitranche Financing Facility	Department/Division:	Central and West Regional Department/Central and West Energy Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

Successful development of the Shah Deniz Stage II (SDII) expansion is expected to provide additional benefits to the Azerbaijan economy, and support the government's policy aims through: (i) the provision of revenues to support non-resource sector developments, (ii) modernizing the oil and gas sector, (iii) promoting efficient use of energy resources, and (iv) increasing sector operation efficiency. The large investments, and resulting export revenues and increased employment are expected to stimulate domestic economic growth, foreign investments, and integrate Azerbaijan's economy in the regional markets.

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. 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 in which ADB is committed to be a provider of catalytic solutions to upper middle income countries such as Azerbaijan which include leveraging opportunities with private capital. The project is also consistent with ADB's Energy Policy, which provides for assistance to gas field development, and transportation and distribution of gas. The project is expected to contribute to the objectives of the State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008–2015 namely on inclusive growth opportunities in the project area, infrastructure development, job creation, social protection, and private sector development.

B. Poverty Targeting:

General Intervention Individual or Household (TI-H) Geographic (TI-G) Non-Income MDGs (TI-M1, M2, etc.)
 The project will create direct employment for Azerbaijani nationals during the construction and operational stages, and provide capacity building and skill development of the workforce. The project will provide tax and royalty revenues to the government, which can be used as 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 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 for the project.¹

The community engagement plan and work force management plan of the project manager and operator, British Petroleum (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. To address these issues, specific targets for recruitment from named communities were included in the construction contracts. Contractors are required to verify the applicants' location of residence via presentation of the government identification card.

2. Impact channels and expected systemic changes.

BP's project activities in Azerbaijan (construction and operations) have historically had a significant impact on local and regional employment levels. Individuals who had previously been employed by BP reported positive experiences, particularly in terms of increasing their household income, developing their skills and improving future career prospects, as shown in the results of the socioeconomic survey undertaken recently. To increase employment opportunities, the project will help offer job placements to local labor force, facilitate local employment through information centers in Sangachal Town, Umid and Sahil, and continue to implement trainings to construction

¹ ADB. 2015. Report and Recommendation of the President to the Board of Directors: Proposed Loan to Lukoil Overseas Shah Deniz: Shah Deniz Stage II Gas Field Expansion Project in Azerbaijan. Manila.

workforce prior to and during employment.

3. Focus of (and resources allocated in) the PPTA or due diligence. Consultants will be engaged to update the due diligence completed in 2015 on the technical, legal, financial, market, and safeguards aspects of the project.

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 discriminating 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 Stakeholder and Socio-Economic Survey 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 (68%) compared with men (82%). 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 Please explain. If yes, a gender action plan should be prepared during PPTA or due diligence. 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. If yes, actions and measures should be prepared during PPTA or due diligence.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) 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 Government of Azerbaijan (sponsor), BP (operator), 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 BP to support Shah Deniz II Project for stakeholder engagement, consultation and communications in accordance with BP's social policy and corporate standards. The SEP has been designed to create an open communication channel with stakeholders, and allow them 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 their Communications and External Affairs (C&EA) team. The programme goes beyond mitigation of environmental and social impacts to ensure a positive net benefits, including educational, broad enterprise development and local content initiatives.

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 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 Please explain.

BP has prepared and approved its SEP in November 2014, to be implemented during construction of the SDII project. The SEP covers the following areas: (i) a brief description of the SDII project; (ii) a review of legislative, regulatory and corporate requirements relating to stakeholder engagement, public consultations and information disclosures; (iii) an overview of the conducted public consultations and information disclosure in relation to the project; (iv) plan of consultations; (v) identification of resources and organizational requirement 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, Umd, 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) Internationally 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 BP. All lands acquired for SDII Project are government lands and have been transferred to BP by SOCAR. An independent audit has been conducted on the land acquired and resettlement activities done for the existing facilities (SDI Project). It was confirmed that the IR 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 hectares of SOCAR land (required at the landfill 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
 Environmental 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 land required for siting the project facilities are government lands and have been transferred to the operator by SOCAR. As there are no indigenous communities existing in the project influence area, there are no foreseen impacts on IPs.

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No Please explain, and provide information on the potential benefits and/or expected impacts, as well as the actions/measures to be conducted during PPTA or due diligence to address the concerns of indigenous peoples.

3. Will the project require broad community support of affected indigenous communities?¹ Yes No Please explain.

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 Adhering to core labor standards Labor retrenchment
 Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability
 Increase in unplanned migration 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 creation of new job opportunities during project operations, and temporary employment during 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 Core labor standards. The SEP of BP will require close and continuous engagement with the communities and relevant stakeholders to ensure that social issues and risks are addressed during project construction 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 If no, please explain why.

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?

Consultants will be engaged to update the environment and social compliance audit.