

**PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING**

Report No.: PIDA54047

Project Name	Additional Financing to IDP Living Standards and Livelihoods Project (P155110)
Parent Project Name	IDP Living Standards and Livelihoods Project (P122943)
Region	EUROPE AND CENTRAL ASIA
Country	Azerbaijan
Sector(s)	Other social services (100%)
Theme(s)	Conflict prevention and post-conflict reconstruction (40%), Participation and civic engagement (20%), Micro, Small and Medium Enterprise support (20%), Rural services and infrastructure (10%), Other urban development (10%)
Lending Instrument	Investment Project Financing
Project ID	P155110
Parent Project ID	P122943
Borrower(s)	Government of Azerbaijan/Ministry of Finance
Implementing Agency	Social Fund for Development of IDPs (SFDI)
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	29-Jan-2016
Date PID Approved/Disclosed	08-Feb-2016
Estimated Date of Appraisal Completion	10-Feb-2016
Estimated Date of Board Approval	13-Jul-2016
Appraisal Review Decision (from Decision Note)	The review did authorize the team to appraise and negotiate

I. Project Context

Country Context

Although Azerbaijan has made great strides in economic growth and poverty reduction over the past decade, the economic situation of the country has become more unstable due to falling oil prices. The Government's fiscal position has deteriorated substantially as crude oil accounts for over 90 percent of the country's goods exports. Public investment is expected to decrease by 16 percent and overall budget by 8.3 percent in 2016.

Reduced public investment is likely to exacerbate the lack of quality infrastructure, including water supply and sanitation and local roads. Poor quality infrastructure has limited the ability of the poor to benefit from economic growth. For example, inadequate road infrastructure is a barrier for the rural population to access services and markets, while poor quality of electricity presents barriers to

business growth.

Potential economic difficulties in Azerbaijan could have an adverse impact on poorer households. While Azerbaijan has been extremely successful in reducing poverty – poverty declined from 49 percent in 2001 to 6 percent in 2012 - those lifted out of poverty remain vulnerable to shocks, as they remain reliant on social safety nets or on low wage employment. While the oil sector drives economic development in Azerbaijan, it represents only 1 percent of total employment. Diversification of the economy is therefore essential and is especially important for rural populations. While agriculture accounts for only 6 percent of GDP, it provides employment for roughly 39 percent of the workforce and generates two-fifths of household incomes in rural areas.

Internally displaced persons (IDPs) constitute one of the most vulnerable segments of the population in Azerbaijan. Approximately 7 percent (around 595,000 people) of Azerbaijan's population is displaced - forced to leave their homes in response to the conflict between Armenia and Azerbaijan - making it one of the countries with the highest number of IDPs per capita in the world. This group is particularly affected by circumstance-driven inequalities. In 2011, the World Bank estimated the poverty rate of IDPs to be 25 percent, compared to 20.1 percent among the non-displaced. The reasons for continued vulnerability of IDPs lie both in their precarious living conditions, an issue addressed by this parent project as well as by substantial other government investments, as well as on the lack of opportunities for IDPs to make a living. In many cases, IDPs do not have the skills to work in the urban areas where they have resettled; in other cases, IDPs do not have the land to be able to use skills in cattle-breeding and agriculture; and yet in other cases, IDPs live in remote areas with no access to market. These constraints need to be addressed to reduce the vulnerability of this population.

Sectoral and institutional Context

In a letter to the World Bank dated December 11, 2015 the Government of Azerbaijan requested additional financing of US\$50 million for the Project. In line with the request of the Government, this loan would provide an additional US\$50 million to the GoA and would extend the project for four additional years, until December 31, 2020. In a separate letter dated October 27, 2015, the Government of Azerbaijan requested a six-month extension of the closing date for the original Project, which is being processed. The closing date of the original credit for the IDP LSLP will be extended to December 31, 2016.

The proposed AF supports scaling up of activities initiated under the original Project. Various options were considered during the preparation phase to identify the best framework for meeting the identified development objectives and responding to the Government's request, including preparation of a new Project, financing from state budget, and the proposed AF. Preparation of a new Project was not found justifiable or necessary given that the proposed additional activities are closely related to the ongoing activities and represent a natural continuation and scale-up of the ongoing project. The scale-up has been deemed necessary given the needs of vulnerable IDPs in Azerbaijan, and especially their continued need for infrastructure and livelihoods support to improve their living standards.

Alignment with the World Bank and Government Strategies. The AF is included in the Azerbaijan Country Partnership Framework (CPF) FY15-20 (Report Number: 95860-AZ) and is fully consistent with the CPF Focus Area 1: Public Sector Management and Service Delivery, as well as

the CPF Focus Area 2: Economic Competitiveness. The Project contributes directly to Objective 1.2: Support access to, and satisfaction with, public services, Objective 1.3: Improve access to water, sanitation, and communal services, and Objective 2.2: Support enhanced access to finance for MSMEs. Azerbaijan's development strategy, "Azerbaijan: Vision 2020", specifically emphasizes the need to improve housing conditions and social infrastructure for IDPs and to enhance employment opportunities for them as one of the strategic priorities of the Government.

The proposed AF is also well aligned with the World Bank's corporate agenda of reducing poverty and enhancing shared prosperity. The Project will directly improve living standards and livelihoods of IDPs, a strata of society predominantly falling into the bottom 40 percent of population. Benefits would also accrue to non-IDP populations living in proximity to IDPs who will use social and economic infrastructure provided by the project. The gains resulting from the Project can hence become a powerful tool for alleviating poverty, improving job opportunities and boosting the incomes of the bottom 40 percent.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

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

III. Project Description

Component Name

Component A: Micro-projects

Comments (optional)

This component will continue to finance demand-driven economic and social infrastructure investments in communities with a significant proportion of IDPs. 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 health centers. The only changes that will be made to this component are: (1) the component will expand in geographic scope; (2) the ceiling for the value of infrastructure supported will be raised from US \$250,000 to US\$300,000 (while SFDI board approval will continue to be sought for projects above US\$150,000). Community contributions will continue to be set at 3 percent of the total value for the component.

Component Name

Component B: Infrastructure support to IDP communities (Original Component Title: Housing Renovation)

Comments (optional)

Component B will undergo the most changes in scope during the Additional Financing stage. In the Parent Project, the component financed the renovation of IDP collective centers that were in a state of disrepair. The GoA will be financing new 'New Settlements' using other financing, but has stated that there is a great need to rehabilitate social and economic infrastructure in New Settlements built before 2005. Component B under the AF will therefore finance multiple small-medium sized infrastructure investments in each of approximately 30 locations.

Component B will also finance ongoing operations and maintenance of all infrastructure supported by the project. This will help ensure the sustainability of investments.

Component Name

Component C: Livelihood support

Comments (optional)

This component will be scaled up and expanded geographically. Targeting for the component will also be modified to be more integrated with Components A and B – the component will specifically target communities benefiting from infrastructure investments. The component has four sub-components: (a) Youth Training and Business Development; (b) Income Generating Activities; (c) Provision of Micro-Credit for IDPs; and (d) (new) Integrative economic support pilot (offering support from (a), (b) and (c)).

Component Name

Component D: Implementation Support and Capacity Building

Comments (optional)

This component will finance project management and capacity building as well as monitoring and evaluation activities. The only change expected under this component is the financing of an impact evaluation. Currently, the project has successfully gathered data on outputs, but there are indications that broader outcomes and impacts of the project are not being successfully captured. Because of this, the project will support a firm to carry out an impact evaluation measuring impacts of the Additional Financing stage only.

IV. Financing (in USD Million)

Total Project Cost:	78.53	Total Bank Financing:	50.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			28.53
International Bank for Reconstruction and Development			50.00
Total			78.53

V. Implementation

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	

Projects in Disputed Areas OP/BP 7.60		x
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Comments (optional)

VII. Contact point

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Borrower/Client/Recipient

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Implementing Agencies

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